CEL SCI CORP
Form 8-K
October 16, 2001

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 8-K

CURRENT REPORT

Pursuant to Section 13 or 15(d) of the
Securities Exchange Act of 1934

Date of Report (date of earliest event reported): October 9, 2001

CEL-SCI CORPORATION
(Exact name of Registrant as specified in its charter)

Colorado	0-11503	84-0916344
(State or other jurisdiction of incorporation)	(Commission File No.)	(IRS Employer Identification No.)

8229 Boone Blvd. #802
Vienna, VA 22182
(Address of principal executive offices, including Zip Code)

Registrant's telephone number, including area code: (703) 506-9460

N/A
(Former name or former address if changed since last report)

Item 5. Other Events and Regulation FD Disclosure

On October 9, 2001 the Institute of Human Virology (IHV) at the University of Maryland, Baltimore and CEL-SCI CORPORATION (AMEX: CVM) announced the presentation of new clinical data for CEL-SCI's immunotherapy drug, Multikine, at the Annual Meeting of the International Society for Interferon and Cytokine Research in Cleveland, Ohio. These findings could lead to a new treatment for HIV-infected women with HPV induced cervical dysplasia, the precursor to cervical cancer. In the U.S. alone, approximately 120,000 to 140,000 women have this disease and are in need of effective therapy.

At the conference it was reported that all five patients treated thus far at the lowest dose in an ongoing dose escalating study showed clinical improvement by colposcopic (stereoscopic, binocular magnification of the cervix under a focused beam of light) examination. Three out of four patients had no evidence of dysplasia on biopsy seven to eight weeks after the final injection. Biopsies on the remaining volunteer showed no apparent changes in her dysplasia. One patient was lost to follow-up. All of the patients tolerated the injections well and without any associated serious adverse reactions. Enrollment at this dose level is completed. The evaluation of Multikine at a higher dose is ongoing as a preliminary to the initiation of a pivotal clinical trial in 2002.

The presentation is entitled, "Immunotherapy with Leukocyte Interleukin, Injection for Human Papilloma Virus (HPV) Induced Cervical Dysplasia in HIV Patients", and was authored by G. Taylor, L. Ely, C. Davis, O. Ioffe, E. Talor, N. Khanna, R. Redfield, and E. Tramont at the Institute of Human Virology, the University of Maryland, CEL-SCI Corporation and the National Institute of Allergy and Infectious Diseases (NIAID). This study was supported in part by a MIPS (Maryland Industrial Partnership) grant from the State of Maryland, a program designed to foster cooperation between researchers/clinicians and industry.

HPV infection is also a leading health problem in non-HIV-infected American college age women. A large concern among women who have HPV-induced cervical dysplasia is that the surgical procedures required to treat cervical dysplasia have a high morbidity rate ranging from cervical incompetence to hysterectomy and the inability to bear children. Furthermore, cervical cancer is the second leading cause of cancer death in women worldwide.

Geert Kersten, Chief Executive Officer of CEL-SCI said, "The results we have seen in this study have literally catapulted this disease to the forefront of our development work. The reasons for this are as follows:

1) We are seeing a high response rate in this very difficult to treat group of patients.

2) The drug was well tolerated and the results were achieved without any associated serious adverse reactions related to Multikine. Given the fragile health of these HIV-infected women and past experiences with other drugs in this patient population, this is very important.

3) There is no effective therapy for these HIV/HPV co-infected women and we know of no other therapies currently in clinical development for this patient population.

4) There are an estimated 120,000 to 140,000 HIV/HPV co-infected women in the U.S. alone whose needs are not adequately addressed. Co-infection with HPV is common in HIV-infected women and cervical cancer, which follows cervical dysplasia, is classified as an AIDS defining illness.

5) We believe that HPV-induced cervical dysplasia patients who are also HIV-infected, and therefore are the most difficult to treat and cure, may represent the fastest way to bring our drug Multikine to the market."

Maximilian de Clara, President of CEL-SCI added, "The market for cervical dysplasia is huge since millions of women are treated for it every year. For this reason, there is a lot of clinical work ongoing in cervical dysplasia. However, all of the agents under development are being developed in women who have a competent immune system. CEL-SCI, on the other hand, will first focus on those women who are immuno-compromised. There are also immuno-compromised groups other than HIV-infected patients and we expect to get to those after we have started a pivotal clinical trial in the HIV-infected population."

Multikine is a mixture of immune system regulators known as cytokines and chemokines at near physiologic doses. One of the cytokines, Interleukin-2, is widely used to treat cancer. Multikine has been tested in more than 150 cancer patients and in 14 AIDS patients, to date, with only minimal side effects.

A center of the University of Maryland Biotechnology Institute, the Institute of Human Virology was established in 1996 as a partnership between the State of Maryland, the City of Baltimore, the University of Maryland System, and the University of Maryland Medical System, to create and develop a world-class center of excellence focusing on chronic viral diseases and virally-linked cancers. The IHV is dedicated to discovery, research, treatment, and prevention of these diseases and cancers. Its unique structure seeks to connect cohesive, multidisciplinary research and clinical programs so that new treatments are streamlined from discovery to patient. The IHV serves patients locally and the scientific community globally.

CEL-SCI is developing new immune system based treatments for cancer and infectious diseases. CEL-SCI has operations in Vienna, Virginia and Baltimore, Maryland. CEL-SCI's web site can be found at www.cel-sci.com.

Forward Looking Statements

When used in this report, the words "intends," "believes," "anticipated" and "expects" and similar expressions are intended to identify forward-looking statements. Such statements are subject to risks and uncertainties which could cause actual results to differ materially from those projected. Factors that could cause or contribute to such differences include, an inability to duplicate the clinical results demonstrated in clinical studies, timely development of any potential products that can be shown to be safe and effective, receiving necessary regulatory approvals, difficulties in manufacturing any of CEL-SCI's

potential products, inability to raise the necessary capital and the risk factors set forth from time to time in CEL-SCI's SEC filings, including but not limited to its report on Form 10-K for the year ended September 30, 2000. CEL-SCI undertakes no obligation to publicly release the result of any revision to these forward-looking statements which may be made to reflect the events or circumstances after the date of this report or to reflect the occurrence of unanticipated events.

SIGNATURES

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

Date: October 11, 2001

CEL-SCI CORPORATION

By: /s/ Geert R. Kersten

Geert R. Kersten, Chief Executive Officer

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The following table summarizes, as of May 31, 2017, 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	$45.5	$93.4	$—	$—	$138.9
Royalty advances	8.4	8.2	2.7	0.1	19.4
Lines of credit and short-term debt	6.2	—	—	—	6.2
Capital leases (1)	1.4	2.5	2.1	2.5	8.5
Pension and post-retirement plans (2)	130.9	6.5	6.8	17.9	162.1
Operating leases	30.0	36.6	16.3	7.6	90.5
Total	$222.4	$147.2	$27.9	$28.1	$425.6

(1) Includes principal and interest.
(2) Includes anticipated amount of U.S. pension plan distributions resulting from the termination of the plan. Excludes expected Medicare Part D subsidy receipts.

Financing

Loan Agreement

The Company is party to the Loan Agreement and certain credit lines 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, 2017. 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. See Note 9 of Notes to Consolidated Financial Statements in Item 8, "Consolidated Financial Statements and Supplementary Data."

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, 2017. 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, 2017 (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
	2018	2019	2020	2021	2022	Thereafter	Total	2017
Debt Obligations								
Lines of credit and current portion of long-term debt	$6.2	$ —	$ —	$ —	$ —	$ —	$6.2	$ 6.2
Average interest rate	4.1 %	—	—	—	—	—		

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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, 2017, 2016 and 2015 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,		
	2017	2016	2015
Revenues	$1,741.6	$1,672.8	$1,635.8
Operating costs and expenses:			
Cost of goods sold	814.5	762.3	758.5
Selling, general and administrative expenses	777.8	777.7	771.1
Depreciation and amortization	38.7	38.9	47.9
Severance	14.9	11.9	9.6
Asset impairments	6.8	14.4	15.8
Total operating costs and expenses	1,652.7	1,605.2	1,602.9
Operating income	88.9	67.6	32.9
Interest income	1.4	1.1	0.3
Interest expense	(2.4)	(2.2)	(3.8)
Gain (loss) on investments and other	—	2.2	0.5
Earnings (loss) from continuing operations before income taxes	87.9	68.7	29.9
Provision (benefit) for income taxes	35.4	24.7	14.4
Earnings (loss) from continuing operations	52.5	44.0	15.5
Earnings (loss) from discontinued operations, net of tax	(0.2)	(3.5)	279.1
Net income (loss)	$52.3	$40.5	$294.6
Basic and diluted earnings (loss) per share of Class A and Common Stock			
Basic:			
Earnings (loss) from continuing operations	$1.51	$1.29	$0.47
Earnings (loss) from discontinued operations	$(0.00)	$(0.11)	$8.53
Net income (loss)	$1.51	$1.18	$9.00
Diluted:			
Earnings (loss) from continuing operations	$1.48	$1.26	$0.46
Earnings (loss) from discontinued operations	$(0.01)	$(0.10)	$8.34
Net income (loss)	$1.47	$1.16	$8.80
Dividends declared per common share	$0.600	$0.600	$0.600

See accompanying notes

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Consolidated Statements of Comprehensive Income (Loss)

	(Amounts in millions) For fiscal years ended May 31,		
	2017	2016	2015
Net income (loss)	$52.3	$40.5	$294.6
Other comprehensive income (loss), net:			
Foreign currency translation adjustments	(5.3)	(8.1)	(15.3)
Pension and post-retirement adjustments:			
Amortization of prior service credit	—	(0.0)	(0.2)
Net actuarial gain (loss) associated with benefit plans	(2.2)	(1.6)	(6.3)
Total other comprehensive income (loss)	$(7.5)	$(9.7)	$(21.8)
Comprehensive income (loss)	$44.8	$30.8	$272.8

See accompanying notes

Consolidated Balance Sheets
(Amounts in millions)
Balances at May 31,

ASSETS	2017	2016
Current Assets:		
Cash and cash equivalents	$444.1	$399.7
Restricted cash held in escrow	—	9.9
Accounts receivable, net	199.2	196.3
Inventories, net	282.5	271.2
Prepaid expenses and other current assets	44.3	72.5
Current assets of discontinued operations	0.4	0.5
Total current assets	970.5	950.1
Noncurrent Assets:		
Property, plant and equipment, net	475.3	437.6
Prepublication costs, net	43.3	41.8
Royalty advances, net	41.8	44.0
Goodwill	118.9	116.2
Noncurrent deferred income taxes	53.7	68.5
Other assets and deferred charges	56.9	54.9
Total noncurrent assets	789.9	763.0
Total assets	$1,760.4	$1,713.1
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities:		
Lines of credit and current portion of long-term debt	$6.2	$6.3
Accounts payable	141.2	138.2
Accrued royalties	34.2	31.6
Deferred revenue	24.2	23.5
Other accrued expenses	178.0	175.9
Accrued income taxes	2.8	1.6
Current liabilities of discontinued operations	0.5	1.2
Total current liabilities	387.1	378.3
Noncurrent Liabilities:		
Other noncurrent liabilities	65.4	77.2
Total noncurrent liabilities	65.4	77.2
Commitments and Contingencies:		
Stockholders' Equity:		
Preferred Stock, $1.00 par value: Authorized, 2.0 shares; Issued and Outstanding, none	—	—
Class A Stock, $0.01 par value: Authorized, 4.0 shares; Issued and Outstanding, 1.7 shares	0.0	0.0
Common Stock, $0.01 par value: Authorized, 70.0 shares; Issued, 42.9 shares; Outstanding, 33.4 and 32.7 shares, respectively	0.4	0.4
Additional paid-in capital	606.8	600.7
Accumulated other comprehensive income (loss)	(94.2)	(86.7)
Retained earnings	1,091.2	1,059.8
Treasury stock at cost	(296.3)	(316.6)
Total stockholders' equity	1,307.9	1,257.6
Total liabilities and stockholders' equity	$1,760.4	$1,713.1

See accompanying notes

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Consolidated Statement of Changes in Stockholders' Equity

(Amounts in millions)

	Class A Stock		Common Stock		Additional Paid-in Capital	Accumulated Other Comprehensive Income (Loss)	Retained Earnings	Treasury Stock At Cost	Total Stockholders' Equity
	Shares	Amount	Shares	Amount					
Balance at May 31, 2014	1.7	$ 0.0	30.6	$ 0.4	$ 580.8	$ (55.2)	$ 765.1	$ (375.7)	$ 915.4
Net Income (loss)	—	—	—	—	—	—	294.6	—	294.6
Foreign currency translation adjustment	—	—	—	—	—	(15.3)	—	—	(15.3)
Pension and post-retirement adjustments (net of tax of $(2.5))	—	—	—	—	—	(6.5)	—	—	(6.5)
Stock-based compensation	—	—	—	—	11.3	—	—	—	11.3
Proceeds pursuant to stock-based compensation plans	—	—	—	—	28.1	—	—	—	28.1
Purchases of treasury stock at cost	—	—	(0.1)	—	—	—	—	(3.5)	(3.5)
Treasury stock issued pursuant to equity-based plans	—	—	1.0	—	(28.7)	—	—	29.3	0.6
Dividends	—	—	—	—	—	—	(19.8)	—	(19.8)
Balance at May 31, 2015	1.7	$ 0.0	31.5	$ 0.4	$ 591.5	$ (77.0)	$ 1,039.9	$ (349.9)	$ 1,204.9
Net Income (loss)	—	—	—	—	—	—	40.5	—	40.5
Foreign currency translation adjustment	—	—	—	—	—	(8.1)	—	—	(8.1)
Pension and post-retirement adjustments (net of tax of $(1.8))	—	—	—	—	—	(1.6)	—	—	(1.6)
Stock-based compensation	—	—	—	—	9.7	—	—	—	9.7
Proceeds pursuant to stock-based compensation plans	—	—	—	—	47.2	—	—	—	47.2
Purchases of treasury stock at cost	—	—	(0.4)	—	—	—	—	(14.4)	(14.4)
Treasury stock issued pursuant to equity-based plans	—	—	1.6	—	(47.7)	—	—	47.7	0.0
Dividends	—	—	—	—	—	—	(20.6)	—	(20.6)
Balance at May 31, 2016	1.7	$ 0.0	32.7	$ 0.4	$ 600.7	$ (86.7)	$ 1,059.8	$ (316.6)	$ 1,257.6
Net Income (loss)	—	—	—	—	—	—	52.3	—	52.3
Foreign currency translation adjustment	—	—	—	—	—	(5.3)	—	—	(5.3)
Pension and post-retirement adjustments (net of tax of $0.4)	—	—	—	—	—	(2.2)	—	—	(2.2)
Stock-based compensation	—	—	—	—	10.1	—	—	—	10.1
Proceeds pursuant to stock-based compensation plans	—	—	—	—	22.5	—	—	—	22.5
Purchases of treasury stock at cost	—	—	(0.2)	—	—	—	—	(6.9)	(6.9)
Treasury stock issued pursuant to equity-based plans	—	—	0.9	—	(26.5)	—	—	27.2	0.7
Dividends	—	—	—	—	—	—	(20.9)	—	(20.9)
Balance at May 31, 2017	1.7	$ 0.0	33.4	$ 0.4	$ 606.8	$ (94.2)	$ 1,091.2	$ (296.3)	$ 1,307.9

See accompanying notes

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Consolidated Statements of Cash Flows

	(Amounts in millions) Years ended May 31,		
	2017	2016	2015
Cash flows - operating activities:			
Net income (loss)	$ 52.3	$ 40.5	$ 294.6
Earnings (loss) from discontinued operations, net of tax	(0.2)	(3.5)	279.1
Earnings (loss) from continuing operations	52.5	44.0	15.5
Adjustments to reconcile earnings (loss) from continuing operations to net cash provided by (used in) operating activities of continuing operations:			
Provision for losses on accounts receivable	11.0	12.3	10.6
Provision for losses on inventory	16.0	12.0	21.7
Provision for losses on royalty advances	4.3	4.1	3.6
Amortization of prepublication and production costs	23.3	26.4	30.4
Depreciation and amortization	39.1	39.3	48.3
Amortization of pension and post-retirement actuarial gains and losses	2.1	4.4	6.9
Deferred income taxes	15.5	18.8	(3.5)
Stock-based compensation	10.1	9.7	8.8
Income from equity investments	(5.3)	(3.5)	(2.0)
Non cash write off related to asset impairments	6.8	14.4	15.8
Unrealized (gain) loss on investments	—	(2.2)	(0.6)
Changes in assets and liabilities, net of amounts acquired:			
Accounts receivable	(15.2)	(18.7)	1.6
Inventories	(29.4)	(27.8)	(33.4)
	24.9	(34.4)	(0.3)

Prepaid expenses and other current assets			
Royalty advances	(2.3)	(9.1)	(6.2)
Accounts payable	(6.0)	(12.7)	12.1
Other accrued expenses	3.1	2.8	5.3
Accrued income taxes	1.2	(155.2)	(24.6)
Accrued royalties	2.9	5.2	(3.1)
Deferred revenue	0.8	2.2	2.2
Pension and post-retirement obligations	(5.3)	(2.1)	(2.2)
Other noncurrent liabilities	(3.7)	0.4	2.5
Other, net	(4.2)	1.7	(1.1)
Total adjustments	89.7	(112.0)	92.8
Net cash provided by (used in) operating activities of continuing operations	142.2	(68.0)	108.3
Net cash provided by (used in) operating activities of discontinued operations	(0.8)	(10.9)	58.6
Net cash provided by (used in) operating activities	141.4	(78.9)	166.9
Cash flows - investing activities:			
Prepublication and production expenditures	(26.9)	(25.2)	(29.0)
Additions to property, plant and equipment	(65.7)	(35.6)	(30.3)
Proceeds from sale of assets	—	3.3	0.7
Loan to investee	—	—	(3.0)
Repayment of loan to investee	—	—	4.8
Other investment and acquisition related payments	(10.1)	(3.7)	(8.3)
Other	—	—	1.1
Net cash provided by (used in) investing activities of continuing operations	(102.7)	(61.2)	(64.0)
Working capital adjustment/Proceeds from sale of discontinued assets	—	(2.9)	577.7
Changes in restricted cash held in escrow for discontinued assets	9.9	24.6	(34.5)

Other cash provided by (used in) investing activities of discontinued operations	—	—	(33.9)
Net cash provided by (used in) investing activities	(92.8)	(39.5)	445.3

See accompanying notes

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Consolidated Statements of Cash Flows

	2017	2016	2015
	(Amounts in millions) Years ended May 31,		
Cash flows - financing activities:			
Net (repayments) borrowings under credit agreement and revolving loan	—	—	(120.0)
Borrowings under lines of credit	28.3	39.0	350.9
Repayments of lines of credit	(28.5)	(36.5)	(359.9)
Repayment of capital lease obligations	(1.1)	(0.8)	(0.2)
Reacquisition of common stock	(6.9)	(14.4)	(3.5)
Proceeds pursuant to stock-based compensation plans	25.4	45.3	26.0
Payment of dividends	(20.8)	(20.5)	(19.7)
Other	(0.5)	(0.1)	2.1
Net cash provided by (used in) financing activities of continuing operations	(4.1)	12.0	(124.3)
Net cash provided by (used in) financing activities of discontinued operations	—	—	(0.2)
Net cash provided by (used in) financing activities	(4.1)	12.0	(124.5)
Effect of exchange rate changes on cash and cash equivalents	(0.1)	(0.7)	(1.8)
Net increase (decrease) in cash and cash equivalents	44.4	(107.1)	485.9
Cash and cash equivalents at beginning of period	399.7	506.8	20.9
Cash and cash equivalents at end of period	$444.1	$399.7	$506.8

	2017	2016	2015
Supplemental Information:			
Income taxes payments (refunds), net	$3.0	$183.3	$34.2
Interest paid	1.4	1.6	3.2
Non cash: Property, plant and equipment additions accrued in accounts payable	14.4	—	—

See accompanying notes

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Notes to Consolidated Financial Statements

(Amounts in millions, except share and per share data)

1. DESCRIPTION OF THE BUSINESS, BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Description of the business

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 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 and throughout the world including Canada, the United Kingdom, Australia, New Zealand and other parts of Asia and, through its export business, sells products in approximately 145 countries.

Basis of presentation

Principles of consolidation

The Consolidated Financial Statements include the accounts of the Corporation and all wholly-owned and majority-owned subsidiaries. All significant intercompany transactions are eliminated in consolidation. Certain reclassifications have been made to conform to the current year presentation.

Discontinued operations

During the twelve month period ended May 31, 2017, the Company did not dispose of any components of the business that would meet the criteria for discontinued operations reporting.

The Company closed or sold several operations during fiscal 2015. During the fourth quarter of fiscal 2015, the Company sold its educational technology and services business, which, among other things, was engaged in the development and sale of technology-based reading and math improvement programs, as well as providing consulting and professional development services. Additionally during fiscal 2015, the Company completed a restructuring of the businesses comprising its former Media, Licensing and Advertising segment, including discontinuing its Soup2Nuts animation and audio production studio operations and Scholastic Interactive, as well as the print edition of a periodic consumer magazine.

All of these businesses are classified as discontinued operations in the Company's financial statements for all periods presented.

Use of estimates

The Company's Consolidated Financial Statements 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, 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:

- Accounts receivable reserves for returns
- Accounts receivable allowance for doubtful accounts
- Pension and other post-retirement obligations

- Uncertain tax positions
- Inventory reserves
- Cost of goods sold from book fair operations during interim periods determined based on estimated gross profit rates
- Sales tax contingencies
- Royalty advance reserves
- Unredeemed incentive programs
- Impairment testing for goodwill for assessment and measurement, intangibles and other long-lived assets and investments.
- Assets and liabilities acquired in business combinations.
- Revenues for fairs which have not reported final fair results

Summary of Significant Accounting Policies

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 generally the net amount received from the retailer, is 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 fiscal year end, management considers patterns of sales and returns in the months preceding the current fiscal year, 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.

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.

Cash equivalents

Cash equivalents consist of short-term investments with original maturities of three months or less.

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. The Company is required to estimate the collectability of its receivables. 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 fiscal year end, management considers patterns of sales and returns in the months preceding the current fiscal year, 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.

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, the sales patterns of its products and specifically identified obsolete inventory.

Property, plant and equipment

Property, plant and equipment are stated at cost. Depreciation and amortization are recognized on a straight-line basis, over the estimated useful lives of the assets. Buildings have estimated useful life, for purposes of depreciation of forty years. Building improvements are depreciated over the life of the improvement which typically does not exceed twenty-five years. Capitalized software, net of accumulated amortization, was $45.0 and $31.1 at May 31, 2017 and 2016, respectively. Capitalized software is amortized over a period of three to seven years. Amortization expense for capitalized software was $12.9, $11.4 and $17.7 for the fiscal years ended May 31, 2017, 2016 and 2015, respectively. Furniture, fixtures and equipment are depreciated over periods not exceeding ten years. Leasehold improvements are amortized over the life of the lease or the life of the assets, whichever is shorter. The Company evaluates the depreciation periods of property, plant and equipment to determine whether events or circumstances indicate that the asset’s carrying value is not recoverable or warrant revised estimates of useful lives.

Leases

Lease agreements are evaluated to determine whether they are capital or operating leases. When substantially all of the risks and benefits of property ownership have been transferred to the Company, as determined by the test criteria in the current authoritative guidance, the lease is recognized as a capital lease.

Capital leases are capitalized at the lower of the net present value of the total amount of rent payable under the leasing agreement (excluding finance charges) or the fair market value of the leased asset. Capital lease assets are depreciated on a straight-line basis in Depreciation and amortization expense, over a period consistent with the Company's normal depreciation policy for tangible fixed assets, but not exceeding the lease term. Interest charges are expensed over the period of the lease in relation to the carrying value of the capital lease obligation.

Rent expense for operating leases, which may include free rent or fixed escalation amounts in addition to minimum lease payments, is recognized on a straight-line basis over the duration of each lease term. Sublease income is recognized on a straight-line basis over the duration of each lease term. To the extent expected sublease income is less than expected rental payments the Company recognizes a current loss on the difference between the fair values of the sublease and the rental payments. The Company also receives lease payments from retail stores that utilize the

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Broadway facing space of the Company's headquarters location in New York City. Lease payments received are presented as a reduction in rent expense in Selling, general and administrative expenses.

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. Prepublication costs are amortized on a straight-line basis over a two-to-five-year period based on expected future revenues. The Company regularly reviews the recoverability of the capitalized costs based on expected future revenues.

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.

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. The royalties earned are applied first against the remaining unearned portion of the advance. 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. The Company applies this historical experience to its existing outstanding royalty advances to estimate the likelihood of recoveries through earndowns. 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 as of May 31 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. 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.

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, intellectual property and other agreements and are amortized over their expected useful lives. Customer lists are amortized on a straight-line basis over five to ten years, while other agreements are amortized on a straight-line basis over their contractual term. Intellectual property assets are amortized over their remaining useful lives, which is approximately five years.

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 the financial reporting and the tax basis 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 indicates 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 accounts for uncertain tax positions using a two-step method. Recognition occurs when an entity concludes that a tax position, based solely on technical merits, is more likely than not to be sustained upon examination. If a tax position is more likely than not to be sustained upon examination, the amount recognized is the largest amount of benefit, determined on a cumulative probability basis, which is more likely than not to be realized upon settlement. The Company assesses all income tax positions and adjusts its reserves against these positions periodically based upon these criteria. The Company also assesses potential penalties and interest associated with these tax positions, and includes these amounts as a component of income tax expense.

In calculating the provision for income taxes on an interim basis, the Company uses an estimate of the annual effective tax rate based upon the facts and circumstances known. The Company’s effective tax rate is based on expected income and statutory tax rates and permanent differences between financial statement and tax return income applicable to the Company in the various jurisdictions in which the Company operates.

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. These amounts are included in the Consolidated Financial Statements in Selling, general and administrative expenses. Future developments relating to the foregoing could result in adjustments being made to these accruals.

Unredeemed incentive credits

The Company employs incentive programs to encourage sponsor participation in its book clubs and book fairs. These programs allow the sponsors to accumulate credits which can then be redeemed for Company products or other items offered by the Company. The Company recognizes a liability for the estimated costs 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.

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Other noncurrent liabilities

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, actuarial information and, with regard to the U.S. Pension Plan, assumptions related to the plan's expected termination. Any change in market performance, interest rate performance, assumed health care cost trend rate, compensation rates or, with regard to the U.S. Pension Plan, estimated lump sum payments and expected fair value of annuity contracts could result in significant changes in the Company's pension and post-retirement obligations.

Pension obligations – Scholastic Corporation and certain of its subsidiaries have defined benefit pension plans covering the majority of their employees who meet certain eligibility requirements. The Company's pension plans and other post-retirement benefits are accounted for using actuarial valuations.

UK Pension Plan
The Company's UK Pension Plan 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 component 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 component of net periodic pension costs.

U.S. Pension Plan
The Company's U.S. Pension Plan calculations are impacted by its expected termination which is considered imminent and likely to occur during fiscal 2018. As such, the Company utilized a discount rate and short-term expected rate of return on plan assets to arrive at an obligation for which additional estimates, related to the anticipated amount of lump sum payments to be distributed in fiscal 2018 and insurance company pricing on the portion of the obligation not distributed through lump sum payments, were used to calculate the benefit obligation. Pension benefits in the cash balance plan for employees located in the U.S. are based on formulas in which the employees' balances are credited monthly with interest based on the average rate for one-year U.S. 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 U.S.-based employees. The post-retirement medical plan benefits are funded on a pay-as-you-go basis, with the Company paying a portion of the premium and the employee paying the remainder. The Company calculates the existing benefit obligation, 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 interest cost component of net periodic post-retirement benefit cost. The assumed health care cost trend rate is used in the measurement of the long-term expected increase in medical claims.

Foreign currency translation

The Company's non-United States dollar-denominated assets and liabilities are translated into United States dollars at prevailing rates at the balance sheet date and the revenues, costs and expenses are translated at the weighted average rates prevailing during each reporting period. Net gains or losses resulting from the translation of the foreign financial statements and the effect of exchange rate changes on long-term intercompany balances are accumulated and charged directly to the foreign currency translation adjustment component of stockholders' equity until such time as the operations are substantially liquidated or sold. 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.

Shipping and handling costs

Amounts billed to customers for shipping and handling are classified as revenue. Costs incurred in shipping and handling are recognized in Cost of goods sold.

Advertising costs

The Company incurs costs for both direct-response and non-direct-response advertising. The Company capitalizes direct-response advertising costs for expenditures, primarily related to classroom magazines. The asset is amortized on a cost-pool-by-cost-pool basis over the period during which the future benefits are expected to be received. Included in Prepaid expenses and other current assets on the balance sheet is $6.0 and $6.0 of capitalized advertising costs as of May 31, 2017 and 2016, respectively. The Company expenses non-direct-response advertising costs as incurred.

Stock-based compensation

The Company recognizes the cost of services received in exchange for any stock-based awards. 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 values of stock options granted by the Company are estimated at the date of grant using the Black-Scholes option-pricing model. The Company's determination of the fair value of stock-based payment awards using this option-pricing model is affected by the price of the Common Stock as well as by assumptions regarding highly complex and subjective variables, including, but not limited to, the expected price volatility of the Common Stock over the terms of the awards, the risk-free interest rate, and actual and projected employee stock option exercise behaviors. Estimates of fair value are not intended to predict actual future events or the value that may ultimately be realized by those who receive these awards.

Forfeitures are estimated at the time of grant and revised, if necessary, in subsequent periods, if actual forfeitures differ from those estimates, in order to derive the Company's best estimate of awards ultimately expected to vest. In determining the estimated forfeiture rates for stock-based awards, the Company annually conducts an assessment of the actual number of equity awards that have been forfeited previously. When estimating expected forfeitures, the Company considers factors such as the type of award, the employee class and historical experience. The estimate of stock-based awards that will ultimately be forfeited requires significant judgment and, to the extent that actual results or updated estimates differ from current estimates, such amounts will be recognized as a cumulative adjustment in the period such estimates are revised.

The table set forth below provides the estimated fair value of options granted by the Company during fiscal years 2017, 2016 and 2015 and the significant weighted average assumptions used in determining such fair value under the Black-Scholes option-pricing model. The average expected life represents an estimate of the period of time stock options are expected to remain outstanding based on the historical exercise behavior of the option grantees. The risk-free interest rate was based on the U.S. Treasury yield curve corresponding to the expected life in effect at the time of the grant. The volatility was estimated based on historical volatility corresponding to the expected life.

	2017		2016		2015	
Estimated fair value of stock options granted	$12.70		$14.78		$11.41	
Assumptions:						
Expected dividend yield	1.5	%	1.4	%	1.8	%
Expected stock price volatility	36.6	%	38.2	%	38.2	%
Risk-free interest rate	1.5	%	1.9	%	2.2	%
Average expected life of options	6 years		6 years		6 years	

New Accounting Pronouncements

ASU 2017-07

In March 2017, the Financial Accounting Standards Board (the "FASB") issued Accounting Standards Update (the "ASU") No. 2017-07, Compensation—Retirement Benefits (Topic 715): Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost. The ASU requires entities to disaggregate the service cost component from the other components of net periodic benefit costs and present it with other current compensation costs for related employees in the income statement, and present the other components elsewhere in the income statement and outside of income from operations if that subtotal is presented. The amendments in this update also allow only the service cost component to be eligible for capitalization when applicable.

The ASU will be effective for the Company in the first quarter of fiscal 2019. Early adoption is permitted. The Company expects to early adopt this ASU in the first quarter of the fiscal year ending May 31, 2018. For the fiscal years ended May 31, 2017 and 2016 service costs were less than $0.1. Therefore, a majority of the net periodic benefit costs of the Company will be presented below Operating income and before Earnings (loss) from continuing operations before income taxes. See note 13, "Employee Benefit Plans," for further information.

ASU 2017-04
In January 2017, the FASB issued ASU 2017-04, Intangibles—Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment, which removes step two from the goodwill impairment test (comparison of implied fair value of goodwill with the carrying amount of that goodwill for a reporting unit). Instead, an entity should measure its goodwill impairment by the amount the carry value exceeds the fair value of a reporting unit.

The ASU will be effective for the Company in the first quarter of fiscal 2021. The Company does not expect the amendments in this ASU to have a material impact on its consolidated financial position, results of operations and cash flows.

ASU 2016-16
In October 2016, the FASB issued ASU 2016-16, “Intra-Entity Transfers of Assets Other Than Inventory.” The ASU removes the prohibition against the immediate recognition of the current and deferred income tax effects of intra-entity transfers of assets other than inventory. The ASU, which is part of the FASB’s simplification initiative, is intended to reduce the complexity and diversity in practice related to the tax consequences of certain types of intra-entity asset transfers, particularly those involving intellectual property.

The ASU will be effective for the Company in the first quarter of fiscal 2019. The Company is evaluating the impact of this ASU on its consolidated financial position, results of operations and cash flows.

ASU 2016-18 and ASU 2016-15
In November 2016 and August 2016, the FASB issued ASU 2016-18, Statement of Cash Flows (Topic 230): Restricted Cash and ASU 2016-15, Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments (A Consensus of the FASB Emerging Issues Task Force), respectively, which address specific statement of cash flows classification issues.

The ASUs will be effective for the Company in the first quarter of fiscal 2019. The Company does not expect the amendments in this ASU to have a material impact on its statement of cash flows.

ASU 2016-13
In June 2016, the FASB issued Accounting Standards Update (the "ASU") 2016-13, Financial Instruments - Credit Losses (Topic 326). This ASU introduces amendments to the accounting for credit losses on instruments defined within the ASU's scope and will impact both financial services and non-financial services entities. Due to its broad scope, which includes trade and lease receivables, this ASU states that it is likely that all entities will need to evaluate the impact of its amendments. Under the amendments, an entity will recognize, as an allowance, its estimate of expected credit losses, which the FASB believes will result in more timely recognition of such losses. The ASU does not prescribe a specific method to make the estimate so its application will require significant judgment.

The ASU will be effective for the Company in the first quarter of fiscal 2021. The Company is evaluating the impact of this ASU on its consolidated financial position, results of operations and cash flows.

ASU 2016-09

In March 2016, the FASB issued the ASU 2016-09, Compensation - Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting. The amendments in this ASU require, among other things, that all income tax effects of awards be recognized in the income statement when the awards vest or are settled. The ASU permits an employer to repurchase a higher number of employee's shares for tax withholding purposes without triggering liability accounting. The ASU also allows for a policy election to account for forfeitures as they occur.

The ASU will be effective for the Company in the first quarter of fiscal 2018. The company will adopt the ASU under the prospective transition method. This ASU requires that the income tax effects of awards be recognized in the income statement when the awards vest or are settled. Currently these effects are accounted for as Additional paid-in capital. The ASU also eliminates the requirement to reclassify excess tax benefits from operating activities to financing activities on the statement of cash flows. For the twelve month periods ended May 31, 2017, 2016 and 2015, the Company had excess tax benefits of $0.8, $1.9 and $1.1, respectively. The Company will continue to estimate forfeitures at the time of grant.

ASU 2016-02
In February 2016, the FASB issued ASU 2016-02, Leases (Topic 842). The amendments in this ASU require, among other things, lessees to recognize a right-of-use asset and a lease liability in the balance sheet for all leases. The lease liability will be measured at the present value of the lease payments over the lease term. The right-of-use asset will be measured at the lease liability amount, adjusted for lease prepayments, lease incentives received and lessee's initial direct costs (e.g., commissions).

The ASU will be effective for the Company in the first quarter of fiscal 2020. The Company is evaluating the impact of this ASU on its consolidated financial position, results of operations and cash flows, and expects that there will be a significant increase to other assets and other liabilities.

ASU 2015-11
In July 2015, the FASB issued ASU 2015-11, Inventory (Topic 330): Simplifying the Measurement of Inventory, as part of its Simplification Initiative. Currently, inventory is measured at the lower of cost using the first-in, first-out method or market. The amendments in this ASU require entities that measure inventory using any method other than last-in, first-out or the retail inventory method to measure inventory at the lower of cost and net realizable value. Net realizable value is the estimated selling price in the ordinary course of business less reasonably predictable costs of completion, disposal and transportation. The amendments should be applied prospectively and earlier application is permitted as of the beginning of an interim or fiscal year period.

The ASU will be effective for the Company in the first quarter of fiscal 2018. The Company does not expect the amendments in this ASU to have a material impact on the consolidated financial position, results of operations and cash flows.

Topic 606, Revenue from Contracts with Customers
In May 2014, the FASB announced that it is amending the FASB Accounting Standards Codification ("ASC") by issuing ASU 2014-09, Topic 606, Revenue from Contracts with Customers (the "New Revenue Standard"). The amendments in this ASU provide a single model for use in accounting for revenue arising from contracts with customers and supersede current revenue recognition guidance, including industry-specific revenue guidance. The core principle of the new ASU is that revenue should be recognized to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods and services. New disclosures about the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers are also required. In August 2015, the FASB issued ASU 2015-14 which deferred the effective date of the New Revenue Standard. In 2016, the FASB issued ASU 2016-08, ASU 2016-10, ASU 2016-11, and ASU 2016-12 to clarify, among other things, the implementation guidance related to principal versus agent considerations, identifying performance obligations, and accounting for licenses of intellectual property. The amendments in this update are to be applied on a retrospective basis, either to each prior reporting period presented or by presenting the cumulative effect of applying the update recognized at the date of initial application.

The New Revenue Standard will be effective for the Company in the first quarter of fiscal 2019. The Company is evaluating the adoption methodology and the impact of this ASU on its consolidated financial position, results of operations and cash flows, including assessing the impact of the guidance across all of its revenue streams. This includes a review of current accounting policies and practices to identify potential differences that would result from applying the guidance. While this evaluation is in progress, and the impact is not fully assessed, the Company believes this standard will result in changes relating to the reporting periods in which certain revenues associated with incentive programs within the Company's school channels are recognized.

2. DISCONTINUED OPERATIONS

The Company continuously evaluates its portfolio of businesses for both impairment and economic viability, as well as for possible strategic dispositions. The Company monitors the expected cash proceeds to be realized from the disposition of discontinued operations' assets, and adjusts asset values accordingly. As a result, the Company closed or sold several operations during fiscal 2015. All of these businesses were classified as discontinued operations in the Company's Consolidated Financial Statements.

During the twelve months ended May 31, 2017 and 2016 the Company did not dispose of any components of the business that would meet the criteria for discontinued operations reporting.

On May 29, 2015, the Company completed the sale of substantially all of the assets comprising its former educational technology and services ("Ed Tech") business and categorized this business as a discontinued operation. In connection with the sale of the Ed Tech business to the purchaser, the Company entered into a transition services agreement whereby the Company provided administrative, distribution and other services to the purchaser. Transition service fees under this agreement were recorded as a reduction to Selling, general and administrative expenses. All services under the transition services agreement were terminated on August 1, 2016. As of May 31, 2017, the Company had adequately fulfilled all service requirements and there were no hold backs from the escrow for breaches of representations and warranties or other claims.

During fiscal 2015, the Company completed a restructuring of the businesses comprising its former Media, Licensing and Advertising segment and discontinued a subscription-based print magazine business, the animation and audio production business, and the game console digital content business, all of which were previously reported in such segment.

The following table summarizes the operating results of the discontinued operations for the fiscal year ended May 31, 2017. Fiscal year 2017 operating results primarily relate to insignificant continuing cash flows from passive activities:

	Ed Tech	All Other	Total
Revenues	$0.0	$ 0.4	$0.4
Operating costs and expenses	0.8	0.1	0.9
Interest income (expense)	—	0.1	0.1
Earnings (loss) before income taxes	$(0.8)	$ 0.4	$(0.4)
Provision (benefit) for income taxes	(0.3)	0.1	(0.2)
Earnings (loss) from discontinued operations, net of tax	$(0.5)	$ 0.3	$(0.2)

The following table summarizes the operating results of the discontinued operations for the fiscal year ended May 31, 2016:

	Ed Tech	All Other	Total
Revenues	$0.0	$0.8	$0.8
Operating costs and expenses (1)	1.5	1.2	2.7
Interest income (expense)	—	0.1	0.1
Gain (loss) on sale	(2.9)	—	(2.9)
Earnings (loss) before income taxes	$(4.4)	$(0.3)	$(4.7)
Provision (benefit) for income taxes	(1.1)	(0.1)	(1.2)
Earnings (loss) from discontinued operations, net of tax	$(3.3)	$(0.2)	$(3.5)

1) Gain (loss) on sale included the finalization of the working capital adjustments from the sale of the Ed Tech business, resulting in a payment to the purchaser of $2.9.

The following table summarizes the operating results of the discontinued operations for the fiscal year ended May 31, 2015:

	Ed Tech	All Other	Total
Revenues	$217.4	$11.7	$229.1
Operating costs and expenses (1)	208.8	14.5	223.3
Interest income (expense)	—	0.1	0.1
Gain (loss) on sale	454.0	—	454.0
Earnings (loss) before income taxes	$462.6	$(2.7)	$459.9
Provision (benefit) for income taxes	181.8	(1.0)	180.8
Earnings (loss) from discontinued operations, net of tax	$280.8	$(1.7)	$279.1

(1) Operating costs and expenses included costs related to unabsorbed overhead burden associated with the former educational technology and services business of $15.8.

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The following table sets forth the assets and liabilities of the discontinued operations included in the Consolidated Balance Sheets of the Company as of May 31:

	2017	2016
Accounts receivable, net	$0.0	$0.0
Prepaid expenses and other current assets	0.4	0.5
Current assets of discontinued operations	$0.4	$0.5
Accounts payable	—	0.0
Accrued royalties	0.5	0.0
Other accrued expenses	—	1.2
Current liabilities of discontinued operations	$0.5	$1.2

As of May 31, 2017 and 2016, assets and liabilities of discontinued operations primarily related to insignificant continuing cash flows from passive activities.

3. SEGMENT INFORMATION

The Company categorizes its businesses into three reportable segments: Children's Book Publishing and Distribution and Education, which comprise the Company's domestic operations, and International.

- Children's Book Publishing and Distribution operates as an integrated business which includes the publication and distribution of children's books, ebooks, media and interactive products in the United States through its book clubs and book fairs in its school channels and through the trade channel. This segment is comprised of three operating segments.

- Education includes the publication and distribution to schools and libraries of children's books, classroom magazines, supplemental and core classroom materials and related support services, and print and on-line reference and non-fiction products for grades pre-kindergarten to 12 in the United States. This segment is comprised of two operating segments.

- International 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. This segment is comprised of three operating segments.

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The following table sets forth information for the Company’s segments for the three fiscal years ended May 31:

	Children's Book Publishing & Distribution (1)	Education (1)	Overhead (1) (2)	Total Domestic	International (1)	Total
2017						
Revenues	$ 1,052.1	$ 312.7	$ —	$ 1,364.8	$ 376.8	$ 1,741.6
Bad debts	4.2	1.1	—	5.3	5.7	11.0
Depreciation and amortization(3)	22.5	8.5	23.6	54.6	7.4	62.0
Asset impairments	—	1.1	5.7	6.8	—	6.8
Segment operating income (loss)	143.1	50.7	(123.6)	70.2	18.7	88.9
Segment assets at May 31, 2017	395.7	200.6	922.2	1,518.5	241.5	1,760.0
Goodwill at May 31, 2017	40.9	68.0	—	108.9	10.0	118.9
Expenditures for other non-current assets(4)	63.6	21.8	54.5	139.9	11.5	151.4
Other non-current assets at May 31, 2017(4)	140.2	93.9	418.2	652.3	67.1	719.4
2016						
Revenues	$ 1,000.9	$ 299.7	$ —	$ 1,300.6	$ 372.2	$ 1,672.8
Bad debts	5.6	1.8	—	7.4	4.9	12.3
Depreciation and amortization(3)	26.5	11.8	19.0	57.3	8.0	65.3
Asset impairments	—	6.9	7.5	14.4	—	14.4
Segment operating income (loss)	120.6	42.8	(107.2)	56.2	11.4	67.6
Segment assets at May 31, 2016	394.4	172.8	898.0	1,465.2	247.4	1,712.6
Goodwill at May 31, 2016	40.9	65.4	—	106.3	9.9	116.2
Expenditures for other non-current assets(4)	46.3	9.1	26.6	82.0	13.8	95.8
Other non-current assets at May 31, 2016(4)	144.4	82.6	379.2	606.2	66.6	672.8
2015						
Revenues	$ 957.8	$ 276.8	$ —	$ 1,234.6	$ 401.2	$ 1,635.8
Bad debts	5.3	1.9	—	7.2	3.4	10.6
Depreciation and amortization(3)	35.4	13.2	21.3	69.9	8.4	78.3
Asset impairments	10.2	—	2.9	13.1	2.7	15.8
Segment operating income (loss)	94.6	39.4	(121.7)	12.3	20.6	32.9
Segment assets at May 31, 2015	378.3	178.3	1,014.6	1,571.2	248.0	1,819.2
Goodwill at May 31, 2015	40.9	65.4	—	106.3	10.0	116.3
Expenditures for other non-current assets(4)	51.7	11.1	11.6	74.4	21.1	95.5
Other non-current assets at May 31, 2015(4)	140.2	92.9	378.5	611.6	68.5	680.1

(1) As discussed in Note 2, “Discontinued Operations,” the Company closed or sold several operations during the fourth quarter of fiscal 2015. All of these businesses are classified as discontinued operations in the Company’s financial statements and, as such, are not reflected in this table.

(2) Overhead includes all domestic corporate amounts not allocated to operating segments, including expenses and costs related to the management of corporate assets. Unallocated assets are principally comprised of deferred income taxes and property, plant and equipment related to the Company’s headquarters in the metropolitan New York area, its fulfillment and distribution facilities located in Missouri, its facility located in Connecticut and unabsorbed burden associated with the former educational technology and services business.

(3) Includes depreciation of property, plant and equipment and amortization of intangible assets and prepublication and production costs.

(4)

Other non-current assets include property, plant and equipment, prepublication, production, royalty advances, goodwill, intangibles and investments. Expenditures for other non-current assets for the International reportable segment include expenditures for long-lived assets of $6.7, $10.3 and $9.6 for the fiscal years ended May 31, 2017, 2016 and 2015, respectively. Other non-current assets for the International reportable segment include long-lived assets of $33.4, $35.3 and $37.3 at May 31, 2017, 2016, and 2015, respectively.

4. DEBT

The following table summarizes debt as of May 31:

	Carrying Value 2017	Fair Value	Carrying Value 2016	Fair Value
Loan Agreement:				
Revolving Loan (interest rate of n/a and n/a, respectively)	$—	$—	$—	$—
Unsecured Lines of Credit (weighted average interest rates of 4.1% and 4.4%, respectively)	6.2	6.2	6.3	6.3
Total debt	$6.2	$6.2	$6.3	$6.3
Less lines of credit and current portion of long-term debt	(6.2)	(6.2)	(6.3)	(6.3)
Total long-term debt	$—	$—	$—	$—

The Company's debt obligations as of May 31, 2017 have maturities of one year or less.

Loan Agreement

On January 5, 2017, Scholastic Corporation and Scholastic Inc. (each, a “Borrower” and together , the “Borrowers”) entered into a new 5-year credit facility with certain banks (the “Loan Agreement”). The Loan Agreement replaced the Company's then existing loan agreement and has substantially similar terms, except that:
(i) the borrowing limit was reduced to $375.0 from $425.0;
(ii) the “starter” basket for permitted payments of dividends and other payments in respect of capital stock was increased to $275.0 from $75.0; and
(iii) the maturity date was extended to January 5, 2022.

The prior loan agreement, which was originally entered into in 2007 and had a maturity date of December 5, 2017, was terminated in connection with the entry into the new Loan Agreement.

The Loan Agreement allows the Company to borrow, repay or prepay and reborrow at any time prior to the January 5, 2022 maturity date. Under the Loan Agreement, interest on amounts borrowed thereunder is due and payable in arrears on the last day of the interest period (defined as the period commencing on the date of the advance and ending on the last day of the period selected by the Borrower at the time each advance is made). The interest pricing under the Loan Agreement is dependent upon the Borrower’s election of a rate that is either:

- A Base Rate equal to the higher of (i) the prime rate, (ii) the prevailing Federal Funds rate plus 0.50% or (iii) the Eurodollar Rate for a one month interest period plus 1% plus, in each case, an applicable spread ranging from 0.175% to 0.60%, as determined by the Company’s prevailing consolidated debt to total capital ratio.

- or -

- A Eurodollar Rate equal to the London interbank offered rate (LIBOR) plus an applicable spread ranging from 1.175% to 1.60%, as determined by the Company’s prevailing consolidated debt to total capital ratio.

As of May 31, 2017, the indicated spread on Base Rate Advances was 0.175% and the indicated spread on Eurodollar Advances was 1.175%, both based on the Company’s prevailing consolidated debt to total capital ratio.
The Loan Agreement also provides for the payment of a facility fee in respect of the aggregate amount of revolving credit commitments ranging from 0.20% to 0.40% per annum based upon the Company’s prevailing consolidated debt to total capital ratio. At May 31, 2017, the facility fee rate was 0.20%.

A portion of the revolving credit facility up to a maximum of $50.0 is available for the issuance of letters of credit. In addition, a portion of the revolving credit facility up to a maximum of $15.0 is available for swingline loans. The Loan

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Agreement has an accordion feature which permits the Company, provided certain conditions are satisfied, to increase the facility by up to an additional $150.0.

As of May 31, 2017 and May 31, 2016, the Company had no outstanding borrowings under the Loan Agreement. At May 31, 2017, the Company had open standby letters of credit totaling $5.3 issued under certain credit lines, including $0.4 under the Loan Agreement and $4.9 under the domestic credit lines discussed below.

The Loan Agreement contains certain covenants, including interest coverage and leverage ratio tests and certain limitations on the amount of dividends and other distributions, and at May 31, 2017, the Company was in compliance with these covenants.

Lines of Credit

As of May 31, 2017, the Company's domestic credit lines available under unsecured money market bid rate credit lines totaled $25.0. There were no outstanding borrowings under these credit lines as of May 31, 2017 and May 31, 2016. As of May 31, 2017, availability under these unsecured money market bid rate credit lines totaled $20.1. All loans made under these credit lines are at the sole discretion of the lender and at an interest rate and term agreed to at the time each loan is made, but not to exceed 365 days. These credit lines may be renewed, if requested by the Company, at the option of the lender.

As of May 31, 2017, the Company had equivalent various local currency credit lines, totaling $23.4, underwritten by banks primarily in the United States, Canada and the United Kingdom. Outstanding borrowings under these facilities were equivalent to $6.2 at May 31, 2017 at a weighted average interest rate of 4.1%, compared to outstanding borrowings equivalent to $6.3 at May 31, 2016 at a weighted average interest rate of 4.4%. As of May 31, 2017, the equivalent amounts available under these facilities totaled $17.2. These credit lines are typically available for overdraft borrowings or loans up to 364 days and may be renewed, if requested by the Company, at the sole option of the lender.

5. COMMITMENTS AND CONTINGENCIES

Lease obligations

The Company leases warehouse space, office space and equipment under various capital and operating leases over periods ranging from one to ten years. Certain of these leases provide for scheduled rent increases based on price-level factors. The Company generally does not enter into leases that call for contingent rent. In most cases, the Company expects that, in the normal course of business, leases will be renewed or replaced. Net rent expense relating to the Company's non-cancelable operating leases for the three fiscal years ended May 31, 2017, 2016 and 2015 was $24.9, $25.7 and $24.2, respectively. Net rent expense represents rent expense reduced for sublease income and lease payments received.

Amortization of assets under capital leases covering land, buildings and equipment was $1.1, $0.8 and $0.2 for the fiscal years ended May 31, 2017, 2016 and 2015, respectively, and is included in Depreciation and amortization expense.

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The following table sets forth the aggregate minimum future annual rental commitments at May 31, 2017 under non-cancelable operating leases for the fiscal years ending May 31:

	Operating Leases	Capital Leases
2018	$ 30.0	$ 1.4
2019	21.0	1.3
2020	15.6	1.2
2021	9.7	1.1
2022	6.6	1.0
Thereafter	7.6	2.5
Total minimum lease payments	$ 90.5	$ 8.5
Less minimum sublease income and lease payments to be received	41.2	—
Minimum lease payments, net of sublease income	$ 49.3	$ 8.5
Less amount representing interest		(0.9)
Present value of net minimum capital lease payments		7.6
Less current maturities of capital lease obligations		1.1
Long-term capital lease obligations		$ 6.5

Other Commitments

The following table sets forth the aggregate minimum future contractual commitments at May 31, 2017 relating to royalty advances and minimum print quantities for the fiscal years ending May 31:

	Royalty Advances	Minimum Print Quantities
2018	$ 8.4	$ 45.5
2019	6.3	46.3
2020	1.9	47.1
2021	2.3	—
2022	0.4	—
Thereafter	0.1	—
Total commitments	$ 19.4	$ 138.9

The Company had open standby letters of credit of $5.3 issued under certain credit lines as of May 31, 2017 and 2016. These letters of credit are scheduled to expire within one year; however, the Company expects that substantially all of these letters of credit will be renewed, at similar terms, prior to expiration.

Contingencies

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 various claims and lawsuits arising in the normal course of business where a loss is considered probable or reasonably possible, that the reasonably possible losses from such claims and lawsuits (either individually or in the aggregate) would have a material adverse effect on the Company's consolidated financial position or results of operations.

6. INVESTMENTS

Included in the Other assets and deferred charges section of the Company's Consolidated Balance Sheets were investments of $28.6 and $26.2 at May 31, 2017 and May 31, 2016, respectively.

The Company's 48.5% equity interest in Make Believe Ideas Limited (MBI), a UK-based children's book publishing company, is accounted for using the equity method of accounting. Under the purchase agreement, and subject to its provisions, the Company will purchase the remaining outstanding shares in MBI following the completion of MBI's accounts for the calendar year 2018. Equity method income from this investment is reported in the International segment. The net carrying value of this investment was $8.6 and $8.0 at May 31, 2017 and May 31, 2016, respectively.

The Company's 26.2% non-controlling interest in a separate children's book publishing business located in the UK is accounted for using the equity method of accounting. Equity method income from this investment is reported in the International segment. The net carrying value of this investment was $20.0 and $18.1 at May 31, 2017 and May 31, 2016, respectively.

The Company has other equity and cost method investments that had a net carrying value of less than $0.1 and $0.1 at May 31, 2017 and May 31, 2016, respectively.

Income from equity investments reported in "Selling, general and administrative expenses" in the Consolidated Statements of Operations totaled $5.3 for the year ended May 31, 2017, $3.5 for the year ended May 31, 2016 and $2.0 for the year ended May 31, 2015.

For the year ended May 31, 2016, the Company recognized a pretax gain of $2.2 on the sale of a cost method investment in China. For the year ended May 31, 2015, the Company recognized a pretax gain of $0.6 on the sale of a UK-based cost method investment that had previously been determined to be other than temporarily impaired.

7. PROPERTY, PLANT AND EQUIPMENT

The following table summarizes the major classes of assets at cost and accumulated depreciation for the fiscal years ended May 31:

	2017	2016
Land	$77.5	$77.4
Buildings	239.7	240.4
Capitalized software	202.0	196.0
Furniture, fixtures and equipment	224.7	221.5
Building and leasehold improvements	176.9	141.7
Total at cost	920.8	877.0
Less: Accumulated depreciation and amortization	(445.5)	(439.4)
Property, plant and equipment, net	$475.3	$437.6

Depreciation and amortization expense related to property, plant, and equipment were $36.2, $36.7 and $46.0 for the fiscal years ended May 31, 2017, 2016 and 2015, respectively. During the twelve months ended May 31, 2017, the Company capitalized $34.2 of building improvements not yet being depreciated related to the investment plan to create premium retail space and modernize the Company's headquarters office space and recognized a pretax impairment charge related to certain website development assets of $5.7. In the fourth quarter of fiscal 2016, the Company recognized a pretax impairment charge of $7.5 related to the abandonment of legacy building improvements in connection with the Company's renovation of its headquarters location in New York City.

8. GOODWILL AND OTHER INTANGIBLES

The following table summarizes the activity in Goodwill for the fiscal years ended May 31:

	2017	2016
Gross beginning balance	$155.8	$155.9
Accumulated impairment	(39.6)	(39.6)
Beginning balance	116.2	116.3
Additions	2.8	—
Foreign currency translation	(0.1)	(0.1)
Gross ending balance	158.5	155.8
Accumulated impairment	(39.6)	(39.6)
Ending balance	$118.9	$116.2

In fiscal 2017, the Company purchased a digital phonics business resulting in the recognition of $2.8 of Goodwill. See note 9, "Acquisitions," for more information.

The following table summarizes Other intangibles for the fiscal years ended May 31:

	2017	2016
Other intangibles subject to amortization - beginning balance	$4.7	$4.7
Additions	7.0	2.4
Amortization expense	(2.5)	(2.2)
Foreign currency translation	(0.2)	(0.2)
Total other intangibles subject to amortization, net of accumulated amortization of $22.0 and $19.5, respectively	$9.0	$4.7
Total other intangibles not subject to amortization	$2.1	$2.1
Total other intangibles	$11.1	$6.8

In fiscal 2017, the Company purchased a digital phonics business and the assets of a U.S.-based book fair business resulting in the recognition of $6.8 and $0.2 of amortizable intangible assets, respectively. In fiscal 2016, the Company purchased a UK-based book fair business and the assets of a U.S.-based book fair business resulting in the Company recognizing $1.9 and $0.5 of amortizable intangible assets, respectively.

Amortization expense for Other intangibles totaled $2.5, $2.2 and $1.9 for the fiscal years ended May 31, 2017, 2016 and 2015, respectively.

The following table reflects the estimated amortization expense for intangibles for the next five fiscal years ending May 31:

2018	$2.0
2019	1.9
2020	1.9
2021	1.6
2022	1.4

Intangible assets with indefinite lives consist principally of trademark and tradename rights. Intangible assets with definite lives consist principally of customer lists, intellectual property and other agreements. Intangible assets with definite lives are amortized over their estimated useful lives. The weighted-average remaining useful lives of all amortizable intangible assets is approximately 5 years.

9. ACQUISITIONS

In fiscal 2017, the Company acquired 100% of the share capital of Ooka Island Inc., a Canadian-based digital phonics business, for $9.7, net of cash acquired. Fair values were assigned to the assets and liabilities acquired, including

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inventory, receivables, payables and intellectual property. The Company utilized internally-developed discounted cash flow forecasts to determine the fair value of the intellectual property. The fair values of the net assets were $6.9 which included $6.8 of amortizable intangible assets attributable to the intellectual property, resulting in $2.8 of goodwill that is expected to be deductible for tax purposes. The results of operations of this business subsequent to the acquisition are included in the Education segment.

The Company also purchased the assets of a U.S.-based book fair business in fiscal 2017 for approximately $0.4. The acquisition resulted in $0.2 of amortizable intangible assets. The results of operations of this business subsequent to the acquisition are included in the Children's Book Publishing and Distribution segment.

In fiscal 2016, the Company acquired 100% of the share capital of Troubadour, Limited, a book fairs business located in the United Kingdom, for £2.1 million, net of cash acquired, which was equivalent to approximately $3.2. Fair values were assigned to the assets and liabilities acquired, including inventory, trade receivables and payables, a customer list and fixed assets, in addition to cash. The Company utilized internally-developed discounted cash flow forecasts to determine the fair value of the customer list. The fair values of the net assets were $3.2 which included $1.9 of amortizable intangible assets attributable to the customer list. The results of operations of this business subsequent to the acquisition are included in the International segment.

The Company also purchased the assets of a U.S.-based book fairs business in fiscal 2016 for approximately $0.5. The acquisition resulted in $0.5 of amortizable intangible assets. The results of operations of this business subsequent to the acquisition were included in the Children's Book Publishing and Distribution segment.

The transactions in fiscal 2017 and 2016 were not determined to be material individually or in the aggregate to the Company's results and therefore pro forma financial information is not presented.

10. TAXES

The components of earnings from continuing operations before income taxes for the fiscal years ended May 31 are:

	2017	2016	2015
United States	$78.7	$62.1	$27.4
Non-United States	9.2	6.6	2.5
Total	$87.9	$68.7	$29.9

The provision for income taxes from continuing operations for the fiscal years ended May 31 consists of the following components:

	2017	2016	2015
Federal			
Current	$8.3	$(4.0)	$3.3
Deferred	17.7	19.2	5.3
Total federal	$26.0	$15.2	$8.6
State and local			
Current	$1.8	$4.1	$1.2
Deferred	2.2	1.8	0.9
Total state and local	$4.0	$5.9	$2.1
Non-United States			
Current	$5.4	$4.1	$4.7
Deferred	—	(0.5)	(1.0)
Total non-United States	$5.4	$3.6	$3.7
Total			
Current	$15.5	$4.2	$9.2
Deferred	19.9	20.5	5.2
Total current and deferred	$35.4	$24.7	$14.4

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Effective Tax Rate Reconciliation

A reconciliation of the significant differences between the effective income tax rate and the federal statutory rate on earnings from continuing operations before income taxes for the fiscal years ended May 31 is as follows:

	2017	2016	2015
Computed federal statutory provision	35.0 %	35.0 %	35.0 %
State income tax provision, net of federal income tax benefit	3.3	3.7	4.2
Difference in effective tax rates on earnings of foreign subsidiaries	0.0	1.2	3.7
Charitable contributions	(0.3)	(0.4)	(1.1)
Tax credits	(0.5)	(0.3)	(0.5)
Valuation allowances	0.1	(0.7)	2.4
Uncertain Positions	2.9	3.9	11.5
Other - net	(0.2)	(6.4)	(7.0)
Effective tax rates	40.3 %	36.0 %	48.2 %
Total provision for income taxes	$35.4	$24.7	$14.4

The tax provision for the fiscal year ended May 31, 2016 was favorably impacted by settlement with the Internal Revenue Service (the "IRS"). During the third quarter of fiscal 2016, the Company reached a settlement with the IRS for fiscal years ended May 31, 2011, 2012 and 2013, and the Company recognized previously unrecognized tax benefits of $4.9, inclusive of interest, as a result of this settlement. Subsequent periods remain open.

Unremitted Earnings

At May 31, 2017, the Company had not provided U.S. income taxes on accumulated but undistributed earnings of its non-U.S. subsidiaries of approximately $63.2 to the extent that such earnings are expected to be indefinitely reinvested. However, if any portion were to be distributed, the related U.S. tax liability may be reduced by foreign income taxes paid on those earnings. Determining the unrecognized deferred tax liability related to those investments in these non-U.S. subsidiaries is not practicable. 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.

Deferred Taxes

The significant components for deferred income taxes for the fiscal years ended May 31, including deferred income taxes related to discontinued operations, are as follows:

	2017	2016
Deferred tax assets		
Tax uniform capitalization	$9.5	$6.2
Prepublication expenses	14.8	26.4
Inventory reserves	24.6	25.1
Allowance for doubtful accounts	3.3	4.2
Other reserves	26.0	26.3
Post-retirement, post-employment and pension obligations	12.5	15.9
Tax carryforwards	31.1	32.2
Lease accounting	(0.4)	(0.4)
Other - net	10.2	12.0
Gross deferred tax assets	131.6	147.9
Valuation allowance	(26.8)	(28.4)
Total deferred tax assets	$104.8	$119.5
Deferred tax liabilities		

Prepaid expenses	(0.4)	(0.6)
Depreciation and amortization	(50.7)	(50.4)
Total deferred tax liability	$(51.1)	$(51.0)
Total net deferred tax assets	$53.7	$68.5

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Total net deferred tax assets of $53.7 at May 31, 2017 and $68.5 at May 31, 2016, respectively, are reported in noncurrent assets.

For the year ended May 31, 2017, the valuation allowance decreased by $1.6 and for the year ended May 31, 2016, the valuation allowance increased by $0.1. The valuation allowance is based on the Company’s assessment that it is more likely than not that certain deferred tax assets will not be realized in the foreseeable future. The valuation allowance at May 31, 2017 relates to the Company's total foreign operating loss carryforwards of $112.3 principally in the UK, which do not expire and other operating loss carryforwards in Asia and Canada.

The benefits of uncertain tax positions are recorded in the financial statements only after determining a more likely-than-not probability that the uncertain tax positions will withstand challenge, if any, from taxing authorities, in which case such benefits are included in long-term income taxes payable, reduced by the associated federal deduction for state taxes and non-U.S. tax credits, and may also include other long-term tax liabilities that are not uncertain but have not yet been paid. The interest and penalties related to these uncertain tax positions are recorded as part of the Company’s income tax expense and constitute part of Other noncurrent liabilities on the Company’s Consolidated Balance Sheets.

The total amount of unrecognized tax benefits at May 31, 2017, 2016 and 2015 were $14.1, excluding $1.7 accrued for interest and penalties, $17.9, excluding $2.3 accrued for interest and penalties, and $17.3, excluding $1.6 accrued for interest and penalties, respectively. Of the total amount of unrecognized tax benefits at May 31, 2017, 2016 and 2015, $14.1, $17.0 and $14.6, respectively, would impact the Company’s effective tax rate.

During the years presented, the Company recognized interest and penalties related to unrecognized tax benefits in the provision for taxes in the Consolidated Financial Statements. The Company recognized a benefit of $0.6, an expense of $0.7, and an expense of $0.5 for the years ended May 31, 2017, 2016 and 2015, respectively.

A reconciliation of the unrecognized tax benefits for the fiscal years ended May 31 is as follows:

Gross unrecognized benefits at May 31, 2014	$14.4
Decreases related to prior year tax positions	(0.7)
Increase related to prior year tax positions	—
Increases related to current year tax positions	3.6
Settlements during the period	—
Lapse of statute of limitation	—
Gross unrecognized benefits at May 31, 2015	$17.3
Decreases related to prior year tax positions	(6.2)
Increase related to prior year tax positions	4.3
Increases related to current year tax positions	5.4
Settlements during the period	(2.9)
Lapse of statute of limitation	—
Gross unrecognized benefits at May 31, 2016	$17.9
Decreases related to prior year tax positions	(6.3)
Increase related to prior year tax positions	0.1
Increases related to current year tax positions	3.0
Settlements during the period	(0.6)
Lapse of statute of limitation	—
Gross unrecognized benefits at May 31, 2017	$14.1

Unrecognized tax benefits for the Company decreased by $3.8 for the year ended May 31, 2017 and increased by $0.6 for the year ended May 31, 2016. Although the timing of the resolution and/or closure on audits is highly uncertain, it is reasonably possible that the balance of gross unrecognized tax benefits could significantly change in the next twelve months. However, given the number of years remaining subject to examination and the number of matters being examined, the Company is unable to estimate the full range of possible adjustments to the balance of gross unrecognized tax benefits.

The Company, including its domestic subsidiaries, files a consolidated U.S. income tax return, and also files tax returns in various states and other local jurisdictions. Also, certain subsidiaries of the Company file income tax returns in foreign jurisdictions. The Company is routinely audited by various tax authorities.

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. The Company assesses sales tax contingencies for each jurisdiction in which it operates, considering all relevant facts including statutes, regulations, case law and experience. Where a sales tax liability in respect to a jurisdiction is probable and can be reliably estimated for such jurisdiction, the Company has made accruals for these matters which are reflected in the Company's Consolidated Financial Statements. These amounts are included in the Consolidated Financial Statements in Selling, general and administrative expenses. Future developments relating to the foregoing could result in adjustments being made to these accruals.

The State of Wisconsin has assessed Scholastic Book Fairs, Inc. ("SBF"), a wholly owned subsidiary of the Company, $5.4, exclusive of penalties and interest, for sales tax in fiscal years 2004 through 2014. Based upon the facts and circumstances and the relevant laws in the State of Wisconsin, the Company does not believe these assessments are merited and has elected to litigate these assessments. While the Company believes it will prevail in this litigation and accordingly has not recognized a liability for these assessments, the results of litigation cannot be assured and it is reasonably possible that SBF could be found liable for all or a portion of the amounts assessed.

11. CAPITAL STOCK AND STOCK-BASED AWARDS

Class A Stock and Common Stock

Capital stock consisted of the following as of May 31, 2017:

	Class A Stock	Common Stock	Preferred Stock
Authorized	4,000,000	70,000,000	2,000,000
Reserved for Issuance	244,506	6,822,489	—
Outstanding	1,656,200	33,383,303	—

The only voting rights vested in the holders of Common Stock, except as required by law, are the election of such number of directors as shall equal at least one-fifth of the members of the Board. The Class A Stockholders are entitled to elect all other directors and to vote on all other matters. The Class A Stockholders and the holders of Common Stock are entitled to one vote per share on matters on which they are entitled to vote. The Class A Stockholders have the right, at their option, to convert shares of Class A Stock into shares of Common Stock on a share-for-share basis. With the exception of voting rights and conversion rights, and as to any rights of holders of Preferred Stock if issued, the Class A Stock and the Common Stock are equal in rank and are entitled to dividends and distributions, when and if declared by the Board.

Preferred Stock

The Preferred Stock may be issued in one or more series, with the rights of each series, including voting rights, to be determined by the Board before each issuance. To date, no shares of Preferred Stock have been issued.

Stock-based awards

At May 31, 2017, the Company maintained two stockholder-approved stock-based compensation plans with regard to the Common Stock: the Scholastic Corporation 2001 Stock Incentive Plan (the “2001 Plan”), under which no further awards can be made; and the Scholastic Corporation 2011 Stock Incentive Plan (the “2011 Plan”). The 2011 Plan was adopted in July 2011 and provides for the issuance of incentive stock options; non-qualified stock options; restricted stock; and other stock-based awards. On September 24, 2014, the stockholders approved an amendment to the 2011 Plan increasing the shares available for issuance pursuant to awards granted under the 2011 plan by 2,475,000 shares.

The Company’s stock-based awards vest over periods not exceeding four years. Provisions in the Company’s stock-based compensation plans allow for the acceleration of vesting for certain retirement-eligible employees, as well as for certain other events.

Stock Options – At May 31, 2017, non-qualified stock options to purchase 185,212 shares and 2,110,766 shares of Common Stock were outstanding under the 2001 Plan and the 2011 Plan, respectively. During fiscal 2017, 507,977 options were granted under the 2011 Plan at a weighted average exercise price of $39.42.

At May 31, 2017, 1,397,818 shares of Common Stock were available for additional awards under the 2011 Plan.

In September 2007, the stockholders approved the Scholastic Corporation 2007 Outside Directors Stock Incentive Plan (the “2007 Directors Plan”). From September 2007 through September 2011, the 2007 Directors Plan provided for the automatic grant to each non-employee director, on the date of each annual meeting of stockholders, of non-qualified stock options to purchase 3,000 shares of Common Stock at a purchase price per share equal to the fair market value of a share of Common Stock on the date of grant and 1,200 restricted stock units. In July 2012, the

Board approved an amended and restated 2007 Outside Directors stock incentive Plan (the “Amended 2007 Directors Plan”), which was approved by the stockholders in September 2012. The Amended 2007 Directors Plan provides for the automatic grant to each non-employee director, on the date of each annual meeting of stockholders, of stock options and restricted stock units with a value equal to a fixed dollar amount. Such dollar amount, as well as the split of such amount between stock options and restricted stock units, will be determined annually by the Board (or committee designated by the Board) in advance of the grant date. The value of the stock option portion of the annual grant is determined based on the Black-Scholes option pricing method, with the exercise price being the fair market value of the Common Stock on the grant date, and the value of the restricted stock unit portion is the fair market value of the Common Stock on the grant date.

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In December 2015, the Board approved an amendment to the Amended 2007 Directors Plan to provide that a non-employee director elected between annual meetings of stockholders would receive a grant at the time of such election equal to a pro rata portion of the most recent annual grant of stock options and restricted stock units, based on the number of regular Board meetings remaining to be held for the annual period during which such election occurred. In July 2016, stock options and restricted stock units with a value of seventy thousand dollars for each non-employee director, with 40% of such value in the form of options and 60% in the form of restricted stock units, were approved, and, on September 21, 2016, an aggregate of 14,784 options at an exercise price of $38.56 per share and 7,623 restricted stock units were granted to the non-employee directors under the Amended 2007 Directors Plan. As of May 31, 2017, 153,340 options were outstanding under the Amended 2007 Directors Plan.

The Scholastic Corporation 2004 Class A Stock Incentive Plan (the “Class A Plan”) provided for the grant to Richard Robinson, the Chief Executive Officer of the Corporation as of the effective date of the Class A Plan, of options to purchase Class A Stock (the “Class A Options”). As of May 31, 2017, there were 244,506 Class A Options to Mr. Robinson outstanding under the Class A Plan, and no shares of Class A Stock remained available for additional awards under the Class A Plan.

Generally, options granted under the various plans may not be exercised for a minimum of one year after the date of grant and expire approximately ten years after the date of grant. The intrinsic value of these stock options is deductible by the Company for tax purposes upon exercise. The Company amortizes the fair value of stock options as stock-based compensation expense over the requisite service period on a straight-line basis, or sooner if the employee effectively vests upon termination of employment for certain retirement-eligible employees, as well as in certain other events.

The following table sets forth the intrinsic value of stock options exercised, pretax stock-based compensation cost and related tax benefits for the Class A Stock and Common Stock plans for the fiscal years ended May 31:

	2017	2016	2015
Total intrinsic value of stock options exercised	$11.0	$14.6	$5.8
Stock-based compensation cost (pretax)	$10.1	$9.7	$11.3
Tax benefits related to stock-based compensation cost	$0.8	$1.8	$2.1
Weighted average grant date fair value per option	$12.70	$14.78	$11.41

Pretax stock-based compensation cost is recognized in Selling, general and administrative expenses. As of May 31, 2017, the total pretax compensation cost not yet recognized by the Company with regard to outstanding unvested stock options was $3.0. The weighted average period over which this compensation cost is expected to be recognized is 2.0.years. In fiscal 2017 and fiscal 2016, there were no stock-based compensation costs recognized in discontinued operations. In fiscal 2015, stock-based compensation cost included $2.5 of expense recognized in discontinued operations.

The following table sets forth the stock option activity for the Class A Stock and Common Stock plans for the fiscal year ended May 31, 2017:

	Options	Weighted Average Exercise Price	Average Remaining Contractual Term (in years)	Aggregate Intrinsic Value
Outstanding at May 31, 2016	3,025,046	$ 32.10		
Granted	522,761	$ 39.39		
Exercised	(833,046)	$ 30.97		
Expired, cancellations and forfeitures	(20,937)	$ 38.68		
Outstanding at May 31, 2017	2,693,824	$ 33.81	6.3	$ 24.0

Exercisable at May 31, 2017	1,446,554	$ 30.14	4.6	$ 18.0

Restricted Stock Units – In addition to stock options, the Company has issued restricted stock units to certain officers and key executives under the 2011 Plan ("RSUs"). The RSUs automatically convert to shares of Common Stock on a one-for-one basis as the award vests, which is typically over a four-year period beginning thirteen months from the grant date and thereafter annually on the anniversary of the grant date. There were 37,791 shares of Common Stock issued upon vesting of RSUs during fiscal 2017. The Company measures the value of RSUs at fair value based on the number of RSUs granted and the price of the underlying Common Stock on the grant date. The Company amortizes the fair value of outstanding Stock Units as stock-based compensation expense over the requisite service period on a straight-line basis, or sooner if the employee effectively vests upon termination of employment under certain circumstances.

The following table sets forth the RSU award activity for the fiscal years ended May 31:

	2017	2016	2015
RSUs granted	52,331	74,536	66,146
Weighted average grant date price per unit	$39.22	$43.10	$33.80

As of May 31, 2017, the total pretax compensation cost not yet recognized by the Company with regard to unvested RSUs was $1.6. The weighted average period over which this compensation cost is expected to be recognized is 1.6 years.

Management Stock Purchase Plan - The Company maintains a Management Stock Purchase Plan (“MSPP”), which allows certain members of senior management to defer up to 100% of their annual cash bonus payments in the form of restricted stock units (“MSPP Stock Units”) which are purchased by the employee at a 25% discount from the lowest closing price of the Common Stock on NASDAQ on any day during the fiscal quarter in which such bonuses are payable. The MSPP Stock Units are converted into shares of Common Stock on a one-for-one basis at the end of the applicable deferral period. The Company measures the value of MSPP Stock Units based on the number of awards granted and the price of the underlying Common Stock on the grant date, giving effect to the 25% discount. The Company amortizes this discount as stock-based compensation expense over the vesting term on a straight-line basis, or sooner if the employee effectively vests upon termination of employment under certain circumstances.

The following table sets forth the MSPP Stock Unit activity for the fiscal years ended May 31:

	2017	2016	2015
MSPP Stock Units allocated	42,565	58,633	67,027
Purchase price per unit	$28.49	$30.38	$23.79

At May 31, 2017, there were 334,744 shares of Common Stock remaining authorized for issuance under the MSPP.

As of May 31, 2017, the total pretax compensation cost not yet recognized by the Company with regard to unvested MSPP Stock Units under the MSPP was less than $0.1. The weighted average period over which this compensation cost is expected to be recognized is 1.7 years.

The following table sets forth the RSU and MSPP Stock Unit activity for the year ended May 31, 2017:

	Stock Units/RSUs	Weighted Average grant date fair value
Nonvested as of May 31, 2016	273,263	$ 23.79
Granted	94,896	$ 26.14
Vested	(58,084)	$ 35.67
Forfeited	—	$ —
Nonvested as of May 31, 2017	310,075	$ 22.28

The total fair value of shares vested during the fiscal years ended May 31, 2017, 2016 and 2015 was $2.1, $3.4 and $3.3, respectively.

Employee Stock Purchase Plan

The Company maintains an Employee Stock Purchase Plan (the “ESPP”), which is offered to eligible United States employees. The ESPP permits participating employees to purchase Common Stock, with after-tax payroll deductions, on a quarterly basis at a 15% discount from the closing price of the Common Stock on NASDAQ. The purchase of Common Stock occurs on the last business day of the calendar quarter. The Company recognizes the discount on the

Common Stock issued under the ESPP as stock-based compensation expense in the quarter in which the employees participated in the plan.

The following table sets forth the ESPP share activity for the fiscal years ended May 31:

	2017	2016	2015
Shares issued	42,799	43,141	55,501
Weighted average purchase price per share	$35.58	$33.65	$31.98

At May 31, 2017, there were 520,469 shares of Common Stock remaining authorized for issuance under the ESPP.

12. TREASURY STOCK

The Company has authorizations from the Board of Directors to repurchase Common Stock, from time to time as conditions allow, on the open market or through negotiated private transactions, as summarized in the table below:

Authorization	Amount
July 2015	50.0
Less repurchases made under the authorization as of May 31, 2017	(11.4)
Remaining Board authorization at May 31, 2017	$ 38.6

On July 22, 2015, the Board authorized $50.0 for the share buy-back program, to be funded with available cash. During the twelve months ended May 31, 2017, the Company repurchased approximately 0.2 million shares on the open market for approximately $6.9 at an average cost of $38.80 per share. The Company’s repurchase program may be suspended at any time without prior notice.

13. EMPLOYEE BENEFIT PLANS

Pension Plans

The Company has a cash balance retirement plan (the “U.S. Pension Plan”), which covers the majority of United States employees who meet certain eligibility requirements. The Company funds all of the contributions for the U.S. Pension Plan. Benefits generally are based on the Company’s contributions and interest credits allocated to participants’ accounts based on years of benefit service and annual pensionable earnings. The U.S. Pension Plan is a defined benefit plan. It is the Company’s policy to fund the minimum amount required by the Employee Retirement Income Security Act of 1974, as amended. Effective June 1, 2009, no further benefits will accrue to employees under the U.S. Pension Plan.

The Company has a defined benefit pension plan (the “UK Pension Plan”) that covers certain employees located in the United Kingdom who meet various eligibility requirements. Benefits are based on years of service and on a percentage of compensation near retirement. The UK Pension Plan is funded by contributions from the Company.

On July 20, 2016, the Board approved the termination of the U.S. Pension Plan (the "Expected Termination"), in which all benefit accruals were previously frozen as of June 1, 2009. Based on the U.S. Pension Plan’s current funded status and the frozen benefit, it was determined that the on-going costs of maintaining the U.S. Pension Plan were growing at a greater rate than the benefit delivered to the Company’s employees and former employees. An application was filed with the IRS for an advance determination as to whether the U.S. Pension Plan met the qualification requirements of Internal Revenue Code section 401(a). Upon approval of the IRS the assets of the U.S. Pension Plan will be distributed either via a lump sum payment to each eligible active and deferred vested participant or to another qualified retirement plan designated by the participant, or via an annuity contract underwritten by a highly rated insurance company. All participants currently receiving a periodic benefit will continue to receive their benefit payments without disruption. The Company expects that completion of the process for terminating the pension plan, which involves several regulatory steps and approvals, will take place in fiscal 2018.

As of May 31, 2017, the Expected Termination is considered imminent and it is likely to occur during fiscal 2018. As such, the actuarial assumptions were updated based on the short-term nature of the plan. A short-term expected rate of return on plan assets was used rather than a long-term return for the U.S. Pension Plan, as the assets are expected to be distributed within the next fiscal year. The pension benefit obligation for the U.S. Pension Plan included estimates for the anticipated amount of lump sum payments to be distributed in fiscal 2018 as well as estimates for insurance company pricing on the portion of the obligation not distributed through lump sum payments. Therefore the U.S. pension benefit obligation measured as of May 31, 2017 includes an estimate for the expected fair value of annuity contracts in addition to the obligation derived from actuarial assumptions. The net funded status of the U.S. Pension Plan was also classified as a short-term asset.

The Company's pension plans have a measurement date of May 31.

Post-Retirement Benefits

The Company provides post-retirement benefits to eligible retired United States-based employees (the "Post-Retirement Benefits") consisting of certain healthcare and life insurance benefits. Employees may become eligible for these benefits after completing certain minimum age and service requirements. Effective June 1, 2009, the Company modified the terms of the Post-Retirement Benefits, effectively excluding a large percentage of employees from the plan. At May 31, 2017, the Company had no unrecognized prior service credit.

The Medicare Prescription Drug, Improvement and Modernization Act (the "Medicare Act") introduced a prescription drug benefit under Medicare ("Medicare Part D") as well as a Federal subsidy of 28% to sponsors of retiree health care benefit plans providing a benefit that is at least actuarially equivalent to Medicare Part D. The Company has determined that the Post-Retirement Benefits provided to its retiree population are in aggregate the actuarial equivalent of the benefits under Medicare Part D. As a result, in fiscal 2017, 2016 and 2015, the Company recognized a cumulative reduction of its accumulated post-retirement benefit obligation of $2.5, $3.1 and $3.0, respectively, due to the Federal subsidy under the Medicare Act.

The Company's post-retirement benefit plan has a measurement date of May 31.

The following table sets forth the weighted average actuarial assumptions utilized to determine the benefit obligations for the U.S. Pension Plan and the UK Pension Plan (collectively the "Pension Plans"), including the Post-Retirement Benefits, at May 31:

	U.S. Pension Plan			UK Pension Plan			Post-Retirement Benefits		
	2017	2016	2015	2017	2016	2015	2017	2016	2015
Weighted average assumptions used to determine benefit obligations:									
Discount rate	2.4%	3.5%	3.8%	2.5%	3.5%	3.5%	3.7%	3.7%	3.8%
Rate of compensation increase	—	—	—	4.1%	3.8%	4.1%	—	—	—
Weighted average assumptions used to determine net periodic benefit cost:									
Discount rate	3.5%	3.8%	3.9%	3.5%	3.5%	4.2%	3.7%	3.8%	4.0%
Expected short-term return on plan assets	4.8%	—	—	—	—	—	—	—	—
Expected long-term return on plan assets	—	4.8%	5.4%	3.9%	4.2%	5.1%	—	—	—
Rate of compensation increase	—	—	—	3.8%	4.1%	4.2%	—	—	—

To develop the expected long-term rate of return on assets assumption for the Pension Plans, the Company considers historical returns and future expectations. Considering this information and the potential for lower future returns due to a generally lower interest rate environment, the Company selected an assumed weighted average long-term rate of return of 3.9% for the UK Pension Plan. In fiscal 2017, the U.S. Pension Plan utilized a short-term rate of return assumption due to the Expected Termination.

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The following table sets forth the change in benefit obligation for the Pension Plans and Post-Retirement Benefits at May 31:

	U.S. Pension Plan		UK Pension Plan		Post-Retirement Benefits	
	2017	2016	2017	2016	2017	2016
Change in benefit obligation:						
Benefit obligation at beginning of year	$125.0	$130.0	$39.8	$43.1	$38.3	$36.3
Service cost	—	—	—	—	0.0	0.0
Interest cost	3.2	4.6	1.2	1.5	0.9	1.4
Plan participants' contributions	—	—	—	—	0.2	0.3
Actuarial losses (gains)	9.2	1.2	6.3	(1.5)	(8.2)	3.0
Foreign currency translation	—	—	(4.3)	(2.3)	—	—
Benefits paid, including expenses	(9.6)	(10.8)	(1.3)	(1.0)	(2.4)	(2.7)
Benefit obligation at end of year	$127.8	$125.0	$41.7	$39.8	$28.8	$38.3

The Expected Termination resulted in an increase in actuarial losses for the U.S. Pension Plan in fiscal 2017 when compared to the prior period. The increase primarily related to premiums associated with insurance company pricing for the obligations that will not be distributed through lump sum payments.

The following table sets forth the change in plan assets for the Pension Plans and Post-Retirement Benefits at May 31:

	U.S. Pension Plan		UK Pension Plan		Post-Retirement Benefits	
	2017	2016	2017	2016	2017	2016
Change in plan assets:						
Fair value of plan assets at beginning of year	$135.1	$143.2	$29.1	$30.5	$ —	$ —
Actual return on plan assets	7.0	2.6	3.5	(0.0)	—	—
Employer contributions	—	—	1.1	1.3	2.2	2.4
Benefits paid, including expenses	(9.6)	(10.7)	(1.3)	(1.0)	(2.4)	(2.7)
Plan participants' contributions	—	—	—	—	0.2	0.3
Foreign currency translation	—	—	(3.2)	(1.7)	—	—
Fair value of plan assets at end of year	$132.5	$135.1	$29.2	$29.1	$ —	$ —

The following table sets forth the net funded status of the Pension Plans and Post-Retirement Benefits and the related amounts recognized on the Company's Consolidated Balance Sheets at May 31:

	U.S. Pension Plan		UK Pension Plan		Post-Retirement Benefits	
	2017	2016	2017	2016	2017	2016
Current assets	$4.7	$—	$—	$—	$—	$—
Non-current assets	—	10.1	—	—	—	—
Current liabilities	—	—	—	—	(2.1)	(2.6)
Non-current liabilities	—	—	(12.5)	(10.7)	(26.7)	(35.7)
Net funded balance	$4.7	$10.1	$(12.5)	$(10.7)	$(28.8)	$(38.3)

The Expected Termination resulted in the net funded balance for the U.S. Pension Plan to be classified as a Current asset based on the expectation that all assets will be distributed during fiscal 2018.

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The following amounts were recognized in Accumulated other comprehensive income (loss) for the Pension Plans and Post-Retirement Benefits in the Company's Consolidated Balance Sheets at May 31:

	2017				2016			
	U.S. Pension Plan	UK Pension Plan	Post - Retirement Benefits	Total	U.S. Pension Plan	UK Pension Plan	Post - Retirement Benefits	Total
Net actuarial gain (loss)	$(51.3)	$(16.3)	$ (3.3)	$(70.9)	$(44.0)	$(13.2)	$ (11.9)	$(69.1)
Amount recognized in Accumulated comprehensive income (loss) before tax	$(51.3)	$(16.3)	$ (3.3)	$(70.9)	$(44.0)	$(13.2)	$ (11.9)	$(69.1)

The estimated net loss for the Pension Plans that will be amortized from Accumulated other comprehensive loss into net periodic benefit cost over the Company's fiscal year ending May 31, 2018 is $2.3. The Expected Termination has not triggered settlement accounting in fiscal 2017.

The estimated net loss for the Post-Retirement Benefits that will be amortized from Accumulated other comprehensive loss into net periodic benefit cost over the fiscal year ending May 31, 2018 is $0.1.

Income tax expense of $0.4, income tax benefit of $1.8 and income tax benefit of $2.5 were recognized in Accumulated other comprehensive loss at May 31, 2017, 2016 and 2015, respectively.

The following table sets forth the projected benefit obligations, accumulated benefit obligations and the fair value of plan assets with respect to the Pension Plans for the fiscal years ended May 31:

	U.S. Pension Plan		UK Pension Plan	
	2017	2016	2017	2016
Projected benefit obligations	$127.8	$125.0	$41.7	$39.8
Accumulated benefit obligations	127.8	125.0	40.9	39.1
Fair value of plan assets	132.5	135.1	29.2	29.1

The following table sets forth the net periodic (benefit) cost for the Pension Plans and Post-Retirement Benefits for the fiscal years ended May 31:

	U.S. Pension Plan			UK Pension Plan			Post - Retirement Benefits		
	2017	2016	2015	2017	2016	2015	2017	2016	2015
Components of net (benefit) cost:									
Service cost	$—	$—	$—	$—	$—	$—	$0.0	$0.0	$0.0
Interest cost	3.2	4.6	5.0	1.2	1.5	1.7	0.9	1.4	1.3
Expected return on assets	(6.1)	(6.5)	(7.8)	(1.0)	(1.3)	(1.5)	—	—	—
Net amortization and deferrals	—	—	—	—	—	—	—	(0.1)	(0.2)
Lump sum settlement charge	—	—	4.3	—	—	—	—	—	—
Amortization of net actuarial loss	0.9	0.8	0.7	0.8	0.9	0.7	0.4	2.8	1.3
Net periodic (benefit) cost	$(2.0)	$(1.1)	$2.2	$1.0	$1.1	$0.9	$1.3	$4.1	$2.4

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 elected to measure service and interest costs by applying the specific spot rates along that yield curve to the plans' liability cash flows. This change did not affect the measurement of the Company's plan obligations.

On May 31, 2017, the Expected Termination of the U.S. Pension Plan is considered imminent and it is likely to occur during fiscal 2018. As such, the Company included estimates for the anticipated amount of lump sum payments to be distributed in fiscal 2018 as well as estimated insurance company pricing on the portion of the obligation not

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distributed through lump sum payments. This change does affect the measurement of the Company's U.S. Pension Plan obligations as of May 31, 2017, however the Net periodic benefit for the U.S. Pension Plan for the period ended May 31, 2017 was not affected.

Plan Assets

The Company’s investment policy with regard to the assets in the Pension Plans is to actively manage, within acceptable risk parameters, certain asset classes where the potential exists to outperform the broader market.

The following table sets forth the total weighted average asset allocations for the Pension Plans by asset category at May 31:

	U.S. Pension Plan		UK Pension Plan	
	2017	2016	2017	2016
Equity securities	13.4 %	28.3 %	38.8 %	36.8 %
Debt securities	76.5 %	69.2 %	32.8 %	33.8 %
Real estate	— %	— %	6.9 %	7.5 %
Other	10.1 %	2.5 %	21.5 %	21.9 %
	100.0%	100.0%	100.0%	100.0%

The weighted average asset allocation for the U.S. Pension Plan's Other investments includes cash resulting from the timing of the transfer of certain assets.

The following table sets forth the targeted weighted average asset allocations for the Pension Plans included in the Company’s investment policy:

	U.S. Pension Plan	UK Pension Plan
Equity	15 %	40 %
Debt and cash equivalents	85 %	30 %
Real estate and other	0 %	30 %
	100 %	100 %

The fair values of the Company’s Pension Plans’ assets are measured using Level 1, Level 2 and Level 3 fair value measurements. For a more complete description of fair value measurements see Note 20, “Fair Value Measurements.”

The following table sets forth the measurement of the Company’s Pension Plans’ assets at fair value by asset category at the respective dates:

	Assets at Fair Value as of May 31, 2017						
	U.S. Pension Plan	UK Pension Plan	U.S. Pension Plan	UK Pension Plan	U.S. Pension Plan	UK Pension Plan	Total
	Level 1		Level 2		Level 3		
Cash and cash equivalents	$18.4	$ 0.5	$—	$ —	$ —	$ —	$18.9
Equity securities:							
U.S. (1)	12.7	1.0	—	—	—	—	13.7
International (2)	—	—	—	10.3	—	—	10.3
Pooled, Common and Collective Funds (3)	—	—	101.4	—	—	—	101.4

Fixed Income [4]	—	—	—	9.6	—	—	9.6
Annuities	—	—	—	—	—	5.8	5.8
Real estate [5]	—	—	—	2.0	—	—	2.0
Total	$31.1	$ 1.5	$101.4	$ 21.9	$ —	$ 5.8	$161.7

	Assets at Fair Value as of May 31, 2016						
	U.S. Pension Plan	UK Pension Plan	U.S. Pension Plan	UK Pension Plan	U.S. Pension Plan	UK Pension Plan	Total
	Level 1		Level 2		Level 3		
Cash and cash equivalents	$3.3	$ 0.9	$—	$ —	$—	$ —	$4.2
Equity securities:							
U.S. (1)	34.1	—	—	—	—	—	34.1
International (2)	4.2	—	—	10.7	—	—	14.9
Pooled, Common and Collective Funds (3)	—	—	93.5	—	—	—	93.5
Fixed Income (4)	—	—	—	9.8	—	—	9.8
Annuities	—	—	—	—	—	5.5	5.5
Real estate (5)	—	—	—	2.2	—	—	2.2
Total	$41.6	$ 0.9	$93.5	$ 22.7	$—	$ 5.5	$164.2

(1) Funds which invest in a diversified portfolio of publicly traded U.S. common stocks of large-cap, medium-cap and small-cap companies. There are no restrictions on these investments.

(2) Funds which invest in a diversified portfolio of publicly traded common stock of non-U.S. companies, primarily in Europe and Asia. There are no restrictions on these investments.

(3) Funds which invest in bond index funds available to certain qualified retirement plans but not traded openly in any public exchanges.

(4) Funds which invest in a diversified portfolio of publicly traded government bonds, corporate bonds and mortgage-backed securities. There are no restrictions on these investments.

(5) Represents assets of a non-U.S. entity plan invested in a fund whose underlying investments are comprised of properties. The fund has publicly available quoted market prices and there are no restrictions on these investments.

The Company has purchased annuities to service fixed payments to certain retired plan participants in the UK. These annuities are purchased from investment grade counterparties. These annuities are not traded on open markets and are therefore valued based upon the actuarial determined valuation, and related assumptions, of the underlying projected benefit obligation, a Level 3 valuation technique. The fair value of these assets was $5.8 and $5.5 at May 31, 2017 and May 31, 2016, respectively.

The following table summarizes the changes in fair value of these Level 3 assets for the fiscal years ended May 31, 2017 and 2016:

Balance at May 31, 2015	$6.1
Actual Return on Plan Assets:	
Relating to assets still held at May 31, 2016	0.0
Relating to assets sold during the year	—
Purchases, sales and settlements, net	(0.3)
Transfers in and/or out of Level 3	—
Foreign currency translation	(0.3)
Balance at May 31, 2016	$5.5
Actual Return on Plan Assets:	
Relating to assets still held at May 31, 2017	1.2
Relating to assets sold during the year	—
Purchases, sales and settlements, net	(0.3)
Transfers in and/or out of Level 3	—

Foreign currency translation	(0.6)
Balance at May 31, 2017	$5.8

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Contributions

In fiscal 2018, the Company expects to make contributions of $1.1 to the Pension Plans.

Estimated future benefit payments

The following table sets forth the expected future benefit payments under the Pension Plans and the Post-Retirement Benefits by fiscal year:

	U.S. Pension Plan	UK Pension Plan	Post - Retirement	
	Pension Benefits		Benefit Payments	Medicare Subsidy Receipts
2018	$127.8	$ 0.8	$ 2.3	$ 0.2
2019	—	1.0	2.3	0.2
2020	—	0.9	2.3	0.3
2021	—	1.0	2.3	0.3
2022	—	1.3	2.2	0.3
2023-2027	—	7.3	10.6	1.3

Estimated future benefit payments for the U.S. Pension Plan are impacted by the Expected Termination and all benefits are expected to be paid in fiscal 2018.

Assumed health care cost trend rates at May 31:

	2017	2016
Health care cost trend rate assumed for the next fiscal year	7.0 %	7.0 %
Rate to which the cost trend is assumed to decline (the ultimate trend rate)	5.0 %	5.0 %
Year that the rate reaches the ultimate trend rate	2024	2024

Assumed health care cost trend rates could have a significant effect on the amounts reported for the post-retirement health care plan. A one percentage point change in assumed health care cost trend rates would have the following effects:

	2017	2016
Total service and interest cost - 1% increase	$0.1	$0.2
Total service and interest cost - 1% decrease	(0.1)	(0.1)
Post-retirement benefit obligation - 1% increase	3.0	4.3
Post-retirement benefit obligation - 1% decrease	(2.6)	(3.7)

Defined contribution plans

The Company also provides defined contribution plans for certain eligible employees. In the United States, the Company sponsors a 401(k) retirement plan and has contributed $7.1, $6.8 and $7.9 for fiscal years 2017, 2016 and 2015, respectively.

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14. ACCRUED SEVERANCE

The table below provides information regarding Accrued severance, which is included in “Other accrued expenses” on the Company’s Consolidated Balance Sheets.

	2017	2016
Beginning balance	$4.4	$2.0
Accruals	14.9	11.9
Payments	(12.7)	(9.5)
Ending balance	$6.6	$4.4

The Company implemented cost reduction programs in fiscal 2017, recognizing severance expense of $12.9. The Company implemented cost reduction and restructuring programs in fiscal 2016, recognizing severance expense of $9.5.

15. ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)

The following table presents the impact on earnings of reclassifications out of Accumulated other comprehensive income (loss) for the fiscal years ended May 31:

	2017		2016		2015	
	Pension Plans	Post - Retirement Benefits	Pension Plans	Post - Retirement Benefits	Pension Plans	Post - Retirement Benefits
Service cost	$—	$ —	$—	$ 0.0	$—	$ 0.0
Net amortization and deferrals	—	—	—	(0.1)	—	(0.2)
Lump sum settlement charge	—	—	—	—	4.3	—
Amortization of net actuarial loss	1.7	0.4	1.7	2.8	1.4	1.3
Tax benefit	(0.4)	(0.1)	(0.3)	(1.1)	(2.0)	(0.4)
Amounts reclassified from Accumulated other comprehensive income (loss)	$1.3	$ 0.3	$1.4	$ 1.6	$3.7	$ 0.7

The amounts reclassified out of Accumulated other comprehensive income (loss) were recognized in Selling, general and administrative expense.

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The following tables summarize the activity in Accumulated other comprehensive income (loss), net of tax, by component for the periods indicated:

	Foreign currency translation adjustments	Pension Plans	Post - Retirement Benefits	Total
Balance at May 31, 2015[1]	$ (31.9)	$ (38.0)	$ (7.1)	$ (77.0)
Other comprehensive income (loss) before reclassifications	(8.1)	(2.8)	$ (1.8)	$ (12.7)
Less: amount reclassified from Accumulated other comprehensive income (loss) (net of taxes)				
Lump Sum Settlement charge	—	—	—	—
Amortization of net actuarial loss	—	1.4	1.6	3.0
Net prior service credit	—	—	(0.0)	(0.0)
Other comprehensive income (loss)	(8.1)	(1.4)	(0.2)	(9.7)
Balance at May 31, 2016[1]	$ (40.0)	$ (39.4)	$ (7.3)	$ (86.7)
Other comprehensive income (loss) before reclassifications	$ (5.3)	$ (8.8)	$ 5.0	$ (9.1)
Less: amount reclassified from Accumulated other comprehensive income (loss) (net of taxes)				
Lump Sum Settlement charge	—	—	—	—
Amortization of net actuarial loss	—	1.3	0.3	1.6
Net prior service credit	—	—	—	—
Other comprehensive income (loss)	(5.3)	(7.5)	5.3	(7.5)
Balance at May 31, 2017 [1]	$ (45.3)	$ (46.9)	$ (2.0)	$ (94.2)

(1) Obligations under Pension Plans and Post-Retirement Benefits are reported net of taxes of $22.0, $22.4 and $20.6 at May 31, 2017, 2016 and 2015, respectively.

16. EARNINGS (LOSS) PER SHARE

The following table summarizes the reconciliation of the numerators and denominators for the Basic and Diluted earnings (loss) per share computation for the fiscal years ended May 31:

	2017	2016	2015
Earnings (loss) from continuing operations attributable to Class A and Common Shares	$52.4	$43.9	$15.4
Earnings (loss) from discontinued operations attributable to Class A and Common Shares, net of tax	(0.2)	(3.5)	279.1
Net income (loss) attributable to Class A and Common Shares	52.2	40.4	294.5
Weighted average Shares of Class A Stock and Common Stock outstanding for basic earnings (loss) per share (in millions)	34.7	34.1	32.7
Dilutive effect of Class A Stock and Common Stock potentially issuable pursuant to stock-based compensation plans (in millions)	0.7	0.8	0.7
Adjusted weighted average Shares of Class A Stock and Common Stock outstanding for diluted earnings (loss) per share (in millions)	35.4	34.9	33.4
Earnings (loss) per share of Class A Stock and Common Stock			
Basic earnings (loss) per share:			
Earnings (loss) from continuing operations	$1.51	$1.29	$0.47
Earnings (loss) from discontinued operations, net of tax	$(0.00)	$(0.11)	$8.53
Net income (loss)	$1.51	$1.18	$9.00
Diluted earnings (loss) per share:			

Earnings (loss) from continuing operations	$1.48	$1.26	$0.46
Earnings (loss) from discontinued operations, net of tax	$(0.01)	$(0.10)	$8.34
Net income (loss)	$1.47	$1.16	$8.80

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Earnings from continuing operations exclude earnings of $0.1, $0.1 and $0.1 for the fiscal years ended May 31, 2017, 2016 and 2015, respectively, for earnings attributable to participating RSUs.
In a period in which the Company reports a discontinued operation, Earnings (loss) from continuing operations is used as the "control number" in determining whether potentially dilutive common shares are dilutive or anti-dilutive. There were 0.4 million potentially anti-dilutive shares outstanding pursuant to compensation plans as of May 31, 2017.

A portion of the Company's Restricted Stock Units ("RSUs") which are granted to employees participate in earnings through cumulative dividends which are payable and non-forfeitable to the employees upon vesting of the RSUs. Accordingly, the Company measures earnings per share based upon the lower of the Two-class method or the Treasury Stock method.

The following table sets forth Options outstanding pursuant to stock-based compensation plans for the fiscal years ended May 31:

	2017	2016
Options outstanding pursuant to stock-based compensation plans (in millions)	2.7	3.0

As of May 31, 2017, $38.6 remains available for future purchases of common shares under the current repurchase authorization of the Board of Directors.

See Note 12, "Treasury Stock," for a more complete description of the Company's share buy-back program.

17. OTHER ACCRUED EXPENSES

Other accrued expenses consist of the following at May 31:

	2017	2016
Accrued payroll, payroll taxes and benefits	$48.5	$44.9
Accrued bonus and commissions	33.8	28.2
Accrued other taxes	26.1	30.4
Accrued advertising and promotions	34.9	35.7
Accrued insurance	7.6	7.7
Other accrued expenses	27.1	29.0
Total accrued expenses	$178.0	$175.9

18. OTHER FINANCIAL DATA

Other financial data consisted of the following for the fiscal years ended May 31:

	2017	2016	2015
Advertising expense	$121.0	$127.3	$129.7
Amortization of prepublication and production costs	23.3	26.4	30.4
Foreign currency transaction gain (loss)	1.0	(0.5)	0.1
Purchases related to contractual commitments for minimum print quantities	53.1	48.7	68.2

	2017	2016
Royalty advances allowance for reserves	$93.8	$90.1
Accounts receivable reserve for returns	36.3	32.1
Accounts receivable allowance for doubtful accounts	13.7	16.1
Unredeemed credits issued in conjunction with the Company's school-based book club and book fair operations (included in other accrued expenses)	8.7	8.9

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19. DERIVATIVES AND HEDGING

The Company enters into foreign currency derivative contracts to economically hedge the exposure to foreign currency fluctuations associated with the forecasted purchase of inventory, the foreign exchange risk associated with certain receivables denominated in foreign currencies and certain future commitments for foreign expenditures. These derivative contracts are economic hedges and are not designated as cash flow hedges. The Company marks-to-market these instruments and records the changes in the fair value of these items in Selling, general and administrative expenses, and it recognizes the unrealized gain or loss in other current assets or other current liabilities. The notional values of the contracts as of May 31, 2017 and 2016 were $36.5 and $31.8, respectively. Net unrealized gains of $0.8 and unrealized losses of $0.5 were recognized at May 31, 2017 and May 31, 2016, respectively.

20. FAIR VALUE MEASUREMENTS

The Company determines the appropriate level in the fair value hierarchy for each fair value measurement of assets and liabilities carried at fair value on a recurring basis in the Company’s financial statements. The fair value hierarchy prioritizes the inputs, which refer to assumptions that market participants would use in pricing an asset or liability, based upon the highest and best use, into three levels as follows:

- Level 1 Unadjusted quoted prices in active markets for identical assets or liabilities at the measurement date.

- Level 2 Observable inputs other than unadjusted quoted prices in active markets for identical assets or liabilities such as

  Quoted prices for similar assets or liabilities in active markets
  Quoted prices for identical or similar assets or liabilities in inactive markets
  Inputs other than quoted prices that are observable for the asset or liability
  Inputs that are derived principally from or corroborated by observable market data by correlation or other means

- Level 3 Unobservable inputs in which there is little or no market data available, which are significant to the fair value measurement and require the Company to develop its own assumptions.

The Company’s financial assets and liabilities measured at fair value consisted of cash and cash equivalents, debt and foreign currency forward contracts. Cash and cash equivalents are comprised of bank deposits and short-term investments, such as money market funds, the fair value of which is based on quoted market prices, a Level 1 fair value measure. The Company employs Level 2 fair value measurements for the disclosure of the fair value of its various lines of credit. The fair value of the Company's debt approximates the carrying value for all periods presented. For a more complete description of fair value measurements employed, see Note 4, “Debt.” The fair values of foreign currency forward contracts, used by the Company to manage the impact of foreign exchange rate changes to the financial statements, are based on quotations from financial institutions, a Level 2 fair value measure. See Note 19, “Derivatives and Hedging,” for a more complete description of fair value measurements employed.

Non-financial assets and liabilities for which the Company employs fair value measures on a non-recurring basis include:

- Long-lived assets
- Investments
- Assets acquired in a business combination
- Goodwill, definite and indefinite-lived intangible assets
- Long-lived assets held for sale

Level 2 and Level 3 inputs are employed by the Company in the fair value measurement of these assets and liabilities. For the fair value measurements employed by the Company for goodwill, see Note 8, “Goodwill and Other Intangibles." For the fair value measurements employed by the Company for certain property, plant and equipment, production assets, investments and prepublication assets, the Company assessed future expected cash flows attributable to these assets.

The following tables present non-financial assets that were measured and recognized at fair value on a non-recurring basis and the total impairment losses and additions recognized on those assets:

	Net carrying value as of May 31, 2017	Fair value measured and recognized using Level 1	Level 2	Level 3	Impairment losses for fiscal year ended May 31, 2017	Additions due to other investments and acquisitions
Goodwill	$ 2.8	$ —	$ —	$ 2.8	$ —	$ 2.8
Prepublication assets	—	—	—	—	1.1	—
Property, plant and equipment, net	—	—	—	—	5.7	—
Intangible assets	6.8			7.0	—	7.0

	Net carrying value as of May 31, 2016	Fair value measured and recognized using Level 1	Level 2	Level 3	Impairment losses for fiscal year ended May 31, 2016	Additions due to other investments and acquisitions
Property, plant and equipment, net	$ —	$ —	$ —	$ —	$ 7.5	$ —
Prepublication assets	—	—	—	—	6.9	—
Intangible assets	1.9	—	—	2.4	—	2.4

	Net carrying value as of May 31, 2015	Fair value measured and recognized using Level 1	Level 2	Level 3	Impairment losses for fiscal year ended May 31, 2015	Additions due to other investments and acquisitions
Goodwill	$ —	$ —	$ —	$ —	$ 5.4	$ —
Property, plant and equipment, net	—	—	—	—	7.5	—
Prepublication assets	—	—	—	—	2.9	—

21. SUBSEQUENT EVENTS

On July 19, 2017, the Board of Directors declared a regular cash dividend of $0.15 per Class A and Common share in respect of the first quarter of fiscal 2018. The dividend is payable on September 15, 2017 to shareholders of record on August 31, 2017.

Report of Independent Registered Public Accounting Firm

THE BOARD OF DIRECTORS AND STOCKHOLDERS

OF SCHOLASTIC CORPORATION

We have audited the accompanying consolidated balance sheets of Scholastic Corporation as of May 31, 2017 and 2016, and the related consolidated statements of operations, comprehensive income (loss), changes in stockholders' equity, and cash flows for each of the three years in the period ended May 31, 2017. Our audits also included the financial statement schedule listed in the Index at Item 15(c). These financial statements and schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and schedule based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Scholastic Corporation at May 31, 2017 and 2016, and the consolidated results of its operations and its cash flows for each of the three years in the period ended May 31, 2017, in conformity with U.S. generally accepted accounting principles. Also, in our opinion, the related financial statement schedule, when considered in relation to the basic financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Scholastic Corporation's internal control over financial reporting as of May 31, 2017, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework), and our report dated July 24, 2017 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

New York, New York

July 24, 2017

Report of Independent Registered Public Accounting Firm

THE BOARD OF DIRECTORS AND STOCKHOLDERS

OF SCHOLASTIC CORPORATION

We have audited Scholastic Corporation's internal control over financial reporting as of May 31, 2017, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) (the COSO criteria). Scholastic Corporation's management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management's Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, Scholastic Corporation maintained, in all material respects, effective internal control over financial reporting as of May 31, 2017, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Scholastic Corporation as of May 31, 2017 and 2016, and the related consolidated statements of operations, comprehensive income (loss), changes in stockholders' equity, and cash flows for each of the three years in the period ended May 31, 2017, and our report dated July 24, 2017 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

New York, New York

July 24, 2017

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Supplementary Financial Information

Summary of Quarterly Results of Operations
(Unaudited, amounts in millions except per share data)

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Fiscal Year Ended May 31,
2017					
Revenues	$282.7	$623.1	$336.2	$499.6	$1,741.6
Cost of goods sold	169.7	271.3	160.3	213.2	814.5
Earnings (loss) from continuing operations	(39.5)	67.9	(15.5)	39.6	52.5
Earnings (loss) from discontinued operations, net of tax	(0.1)	0.0	0.1	(0.2)	(0.2)
Net income (loss)	(39.6)	67.9	(15.4)	39.4	52.3
Earnings (loss) per share of Class A and Common Stock:					
Basic:					
Earnings (loss) from continuing operations [(1)]	(1.15)	1.96	(0.45)	1.13	1.51
Earnings (loss) from discontinued operations, net of tax [(1)]	(0.00)	0.00	0.01	(0.01)	(0.00)
Net income (loss) [(1)]	(1.15)	1.96	(0.44)	1.12	1.51
Diluted:					
Earnings (loss) from continuing operations [(1)]	(1.15)	1.92	(0.45)	1.11	1.48
Earnings (loss) from discontinued operations, net of tax [(1)]	(0.00)	0.00	0.01	(0.01)	(0.01)
Net income (loss) [(1)]	(1.15)	1.92	(0.44)	1.10	1.47
2016					
Revenues	$191.2	$601.8	$366.0	$513.8	$1,672.8
Cost of goods sold	114.5	257.1	178.0	212.7	762.3
Earnings (loss) from continuing operations	(48.9)	65.2	(7.2)	34.9	44.0
Earnings (loss) from discontinued operations, net of tax	(0.5)	(0.3)	(1.8)	(0.9)	(3.5)
Net income (loss)	(49.4)	64.9	(9.0)	34.0	40.5
Earnings (loss) per share of Class A and Common Stock:					
Basic:					
Earnings (loss) from continuing operations [(1)]	(1.46)	1.90	(0.21)	1.02	1.29
Earnings (loss) from discontinued operations, net of tax [(1)]	(0.02)	(0.01)	(0.05)	(0.03)	(0.11)
Net income (loss) [(1)]	(1.48)	1.89	(0.26)	0.99	1.18
Diluted:					
Earnings (loss) from continuing operations [(1)]	(1.46)	1.85	(0.21)	1.00	1.26
Earnings (loss) from discontinued operations, net of tax [(1)]	(0.02)	(0.01)	(0.05)	(0.03)	(0.10)
Net income (loss) [(1)]	(1.48)	1.84	(0.26)	0.97	1.16

(1) The sum of the quarters may not equal the full year basic and diluted earnings per share since each quarter is calculated separately.

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Item 9 | Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

None.

Item 9A | Controls and Procedures

Evaluation of Disclosure Controls and Procedures

The Chief Executive Officer and Chief Financial Officer of the Corporation, after conducting an evaluation, together with other members of the Company’s management, of the effectiveness of the design and operation of the Corporation’s disclosure controls and procedures as of May 31, 2017, have concluded that the Corporation’s disclosure controls and procedures were effective to ensure that information required to be disclosed by the Corporation in its reports filed or submitted under the Securities Exchange Act of 1934 (the “Exchange Act”) is recorded, processed, summarized, and reported within the time periods specified in the rules and forms of the SEC and accumulated and communicated to members of the Corporation’s management, including the Chief Executive Officer and Chief Financial Officer, to allow timely decisions regarding required disclosure.

Management’s Report on Internal Control over Financial Reporting

The management of the Corporation is responsible for establishing and maintaining adequate internal control over financial reporting for the Corporation. A corporation’s internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate. The Company’s management (with the participation of the Corporation’s Chief Executive Officer and Chief Financial Officer), after conducting an evaluation of the effectiveness of the Corporation’s internal control over financial reporting based on the framework in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013), concluded that the Corporation’s internal control over financial reporting was effective as of May 31, 2017.

Ernst & Young LLP, an independent registered public accounting firm, has issued an attestation report on the Corporation’s internal control over financial reporting as of May 31, 2017, which is included herein. There was no change in the Corporation’s internal control over financial reporting that occurred during the quarter ended May 31, 2017 that materially affected, or is reasonably likely to materially affect, the Corporation’s internal control over financial reporting.

Item 9B | Other Information

None.

Part III

Item 10 | Directors, Executive Officers and Corporate Governance

Information required by this item is incorporated herein by reference from the Corporation’s definitive proxy statement for the Annual Meeting of Stockholders to be held September 20, 2017 to be filed with the SEC pursuant to Regulation 14A under the Exchange Act. Certain information regarding the Corporation’s Executive Officers is set forth in Part I - Item 1 - Business.

Item 11 | Executive Compensation

Incorporated herein by reference from the Corporation’s definitive proxy statement for the Annual Meeting of Stockholders to be held September 20, 2017 to be filed pursuant to Regulation 14A under the Exchange Act.

Item 12 | Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

Incorporated herein by reference from the Corporation’s definitive proxy statement for the Annual Meeting of Stockholders to be held September 20, 2017 to be filed pursuant to Regulation 14A under the Exchange Act.

Item 13 | Certain Relationships and Related Transactions, and Director Independence

Incorporated herein by reference from the Corporation’s definitive proxy statement for the Annual Meeting of Stockholders to be held September 20, 2017 to be filed pursuant to Regulation 14A under the Exchange Act.

Item 14 | Principal Accounting Fees and Services

Incorporated herein by reference from the Corporation’s definitive proxy statement for the Annual Meeting of Stockholders to be held September 20, 2017 to be filed pursuant to Regulation 14A under the Exchange Act.

Part IV

Item 15 | Exhibits, Financial Statement Schedules

(a)(1) Financial Statements:

The following Consolidated Financial Statements are included in Part II, Item 8, “Consolidated Financial Statements and Supplementary Data”:

Consolidated Statements of Operations for the years ended May 31, 2017, 2016 and 2015

Consolidated Statements of Comprehensive Income (Loss) for the years ended May 31, 2017, 2016 and 2015

Consolidated Balance Sheets at May 31, 2017 and 2016

Consolidated Statement of Changes in Stockholders’ Equity for the years ended May 31, 2017, 2016 and 2015

Consolidated Statements of Cash Flows for the years ended May 31, 2017, 2016 and 2015

Notes to Consolidated Financial Statements

(a)(2) Supplementary Financial Information - Summary of Quarterly Results of Operations Financial Statement Schedule.

and (c)

The following consolidated financial statement schedule is included with this report: Schedule II-Valuation and Qualifying Accounts and Reserves.

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.

(a)(3) and (b)

Exhibits:

2.1 Stock and Asset Purchase Agreement dated as of April 23, 2015, by and among Houghton Mifflin Harcourt Publishing Company, as Purchaser, Scholastic Corporation, as Parent Seller, and Scholastic Inc., as Seller (incorporated by reference to the Corporation's Annual Report on Form 10-K as filed with the SEC on July 29, 2015, SEC File No. 000-19860) (the "2015 10-K").

3.1 Amended and Restated Certificate of Incorporation of the Corporation, as amended to date (incorporated by reference to the Corporation’s Quarterly Report on Form 10-Q as filed with the SEC on October 5, 2006, SEC File No. 000-19860) (the “August 31, 2006 10-Q”).

3.2 Bylaws of the Corporation, amended and restated as of December 12, 2007 (incorporated by reference to the Corporation’s Current Report on Form 8-K as filed with the SEC on December 14, 2007, SEC File No.

000-19860).

10.1*	Scholastic Corporation Management Stock Purchase Plan, amended and restated effective as of September 23, 2008 (incorporated by reference to the Corporation’s Annual Report on Form 10-K as filed with the SEC on July 30, 2009, SEC File No. 000-19860) (the “2009 10-K”), together with Amendment No. 1 to the Scholastic Corporation Management Stock Purchase Plan, effective as of September 21, 2011 (incorporated by reference to Appendix B to the Corporation’s definitive Proxy Statement as filed with the SEC on August 9, 2011, SEC File No. 000-19860).
10.2*	Scholastic Corporation Director’s Deferred Compensation Plan, amended and restated effective as of September 23, 2008 (incorporated by reference to the 2009 10-K).
10.3*	Scholastic Corporation 2007 Outside Directors Stock Incentive Plan (the “2007 Directors’ Plan”) effective as of September 23, 2008 (incorporated by reference to the 2009 10-K) and the Amended and Restated Scholastic Corporation 2007 Outside Directors Stock Incentive Plan (incorporated by reference to the Corporation’s Quarterly Report on Form 10-Q as filed with the SEC on January 2, 2013, SEC File No. 000-19860) (“the November 30, 2012 10-Q”), and Amendment No. 1, effective as of May 21, 2013 (incorporated by reference to the 2013 10-K), and Amendment No. 2, effective as of December 16, 2015 (incorporated by reference to the Corporation's Quarterly Report on Form 10-Q as filed with the SEC on December 18, 2015, SEC FIle No. 000-19860).
10.4*	Form of Stock Option Agreement under the 2007 Directors’ Plan (incorporated by reference to the Corporation’s Quarterly Report on Form 10-Q as filed with the SEC on January 9, 2008, SEC File No. 000-19860) (the “November 30, 2007 10-Q”) and the Form of Stock Option Agreement under the 2007 Directors’ Plan, effective as of September 19, 2012 (incorporated by reference to the November 30, 2012 10-Q).
10.5*	Form of Restricted Stock Unit Agreement under the 2007 Directors’ Plan effective as of September 23, 2008 (incorporated by reference to the 2009 10-K) and the Form of Restricted Stock Unit Agreement, effective as of September 19, 2012 (incorporated by reference to the November 30, 2012 10-Q).
10.6*	Scholastic Corporation 2001 Stock Incentive Plan, amended and restated as of July 21, 2009 (the “2001 Plan”) (incorporated by reference to the Corporation’s Quarterly Report on Form 10-Q as filed with the SEC on October 10, 2009, SEC File No. 000-19860) (the “August 31, 2009 10-Q”), and Amendment No. 1 to the Amended and Restated Scholastic Corporation 2001 Stock Incentive Plan (incorporated by reference to the 2013 10-K).
10.7*	Form of Non-Qualified Stock Option Agreement under the 2001 Plan (incorporated by reference to the August 31, 2009 10-Q).
10.8*	Scholastic Corporation 2004 Class A Stock Incentive Plan (the “Class A Plan”) (incorporated by reference to Appendix A to the Corporation’s definitive Proxy Statement as filed with the SEC on August 2, 2004, SEC File No. 000-19860), Amendment No. 1, effective as of May 25, 2006 (incorporated by reference to the 2006 10-K), Amendment No. 2, dated July 18, 2006 (incorporated by reference to Appendix C to the Corporation’s definitive Proxy Statement as filed with the SEC on August 22, 2006, SEC File No. 000-19860), and Amendment No. 3, dated as of March 20, 2007 (incorporated by reference to the February 28, 2007 10-Q).
10.9*	Form of Class A Option Agreement under the Class A Plan (incorporated by reference to the Corporation’s Annual Report on Form 10-K as filed with the SEC on August 8, 2005, SEC File No. 000-19860).

10.10*	Scholastic Corporation 2011 Stock Incentive Plan (incorporated by reference to the November 30, 2011 10-Q) Amendment No. 1 to the Scholastic Corporation 2011 Stock Incentive Plan (incorporated by reference to the 2013 10-K) and Amendment No. 2 to the Scholastic Corporation 2011 Stock Incentive Plan (incorporated by reference to the Corporation's Quarterly Report on Form 10-Q as filed with the SEC on December 22, 2014, SEC File No. 000-19860).

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10.11*	Form of Restricted Stock Unit Agreement under the Scholastic Corporation 2011 Stock Incentive Plan (incorporated by reference to the November 30, 2011 10-Q).
10.12*	Form of Stock Option Agreement under the Scholastic Corporation 2011 Stock Incentive Plan (incorporated by reference to the November 30, 2011 10-Q).
10.13*	Severance Agreement, dated September 26, 2013, between Scholastic Corporation and Maureen O'Connell (incorporated by reference to the Corporation's Form 10-Q as filed with the SEC on December 19, 2013, SEC File No. 000-19860) (the "November 30, 2013 Form 10-Q").
10.14*	Scholastic Corporation 2013 Executive Performance Incentive Plan (incorporated by reference to the November 30, 2013 Form 10-Q).
'10.15	Credit Agreement, dated as of January 5, 2017, among the Corporation and Scholastic Inc., as borrowers, the Initial Lenders named therein, Bank of America, N.A., as administrative agent, Merrill Lynch, Pierce, Fenner and Smith Incorporated and Well Fargo Securities, LLC as joint lead arrangers and joint bookrunners, Wells Fargo N.A., Capital One N.A., Fifth Third Bank and HSBC Bank USA, N.A., as syndicate agents, and Branch Banking and Trust Company, as documentation agent.
21	Subsidiaries of the Corporation, as of May 31, 2017.
23	Consent of Ernst & Young LLP.
31.1	Certification of the Chief Executive Officer of the Corporation filed pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of the Chief Financial Officer of the Corporation filed pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32	Certifications of the Chief Executive Officer and the Chief Financial Officer of the Corporation pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101.INS	XBRL Instance Document **
101.SCH	XBRL Taxonomy Extension Schema Document **
101.CAL	XBRL Taxonomy Extension Calculation Document **
101.DEF	XBRL Taxonomy Extension Definitions Document **
101.LAB	XBRL Taxonomy Extension Labels Document **
101.PRE	XBRL Taxonomy Extension Presentation Document **

* The referenced exhibit is a management contract or compensation plan or arrangement described in Item 601(b)(10) (iii) of Regulation S-K.

**

In accordance with Regulation S-T, the XBRL-related information in Exhibit 101 to this Annual Report on Form 10-K shall be deemed to be "furnished" and not "filed."

Item 16 | Summary

None.

Signatures

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Dated: July 24, 2017 SCHOLASTIC CORPORATION

By: /s/ Richard Robinson
Richard Robinson, Chairman of the Board,
President and Chief Executive Officer

Power of Attorney

KNOW ALL MEN BY THESE PRESENTS, that each person whose signature appears below constitutes and appoints Richard Robinson his or her true and lawful attorney-in-fact and agent, with power of substitution and resubstitution, for him or her and in his or her name, place and stead, in any and all capacities, to sign any and all amendments to this Annual Report on Form 10-K, and to file the same, with all exhibits thereto, and other documents in connection therewith, with the Securities and Exchange Commission, granting unto said attorney-in-fact and agent full power and authority to do and perform each and every act and thing necessary and requisite to be done, as fully and to all the intents and purposes as he might or could do in person, hereby ratifying and confirming all that said attorney-in-fact and agent may lawfully do or cause to be done by virtue hereof.

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

Signature	Title	Date
/s/ Richard Robinson Richard Robinson	Chairman of the Board, President and Chief Executive Officer and Director (principal executive officer)	July 24, 2017
/s/ Maureen O’Connell Maureen O’Connell	Executive Vice President, Chief Administrative Officer and Chief Financial Officer (principal financial officer)	July 24, 2017
/s/ Kenneth Cleary Kenneth Cleary	Senior Vice President, Chief Accounting Officer (principal accounting officer)	July 24, 2017
/s/ Andrés Alonso Andrés Alonso	Director	July 24, 2017
/s/ James W. Barge James W. Barge	Director	July 24, 2017
/s/ Marianne Caponnetto Marianne Caponnetto	Director	July 24, 2017
/s/ John L. Davies John L. Davies	Director	July 24, 2017
/s/ Andrew S. Hedden Andrew S. Hedden	Director	July 24, 2017

Signature	Title	Date
/s/ Peter Warwick Peter Warwick	Director	July 24, 2017
/s/ Margaret A. Williams Margaret A. Williams	Director	July 24, 2017
/s/ David J. Young David J. Young	Director	July 24, 2017

Scholastic Corporation

Financial Statement Schedule

ANNUAL REPORT ON FORM 10-K

YEAR ENDED May 31, 2017

ITEM 15(c)

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Schedule II

Valuation and Qualifying Accounts and Reserves

	Balance at Beginning of Year	Expensed	Write-Offs and Other	(Amounts in millions) Years ended May 31, Balance at End of Year
2017				
Allowance for doubtful accounts	$ 16.1	$ 11.0	$ 13.4	$ 13.7
Reserve for returns	32.1	80.4	76.2 (1)	36.3
Reserves for obsolescence	73.9	16.0	18.0	71.9
Reserve for royalty advances	90.1	4.3	0.6	93.8
2016				
Allowance for doubtful accounts	$ 14.9	$ 12.3	$ 11.1	$ 16.1
Reserve for returns	27.9	56.6	52.4 (1)	32.1
Reserves for obsolescence	81.1	12.0	19.2	73.9
Reserve for royalty advances	86.8	4.1	0.8	90.1
2015				
Allowance for doubtful accounts	$ 15.6	$ 10.6	$ 11.3	$ 14.9
Reserve for returns	27.0	53.9	53.0 (1)	27.9
Reserves for obsolescence	81.8	21.7	22.4	81.1
Reserve for royalty advances	85.3	3.6	2.1	86.8

(1) Represents actual returns charged to the reserve

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