

SCHOLASTIC CORP
Form 10-K
July 29, 2014

United States
Securities and Exchange Commission

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

For the fiscal year ended May 31, 2014 | Commission File No. 000-19860

Scholastic Corporation
(Exact name of Registrant as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

13-3385513
(IRS Employer Identification No.)

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

10012
(Zip Code)

Registrant's telephone number, including area code: (212) 343-6100

Securities Registered Pursuant to Section 12(b) of the Act:

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

Securities Registered Pursuant to Section 12(g) of the Act:

NONE

Indicate by check mark if the Registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.
Yes No

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

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

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

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

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

Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company

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

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

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

Documents Incorporated By Reference

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

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Part I

Item 1 | Business

Overview

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

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

Operating Segments – Continuing Operations

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

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

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

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

CHILDREN’S BOOK PUBLISHING AND DISTRIBUTION

(48.0% of fiscal 2014 revenues)

General

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

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

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

School-Based Book Clubs

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

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

School-Based Book Fairs

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

Trade

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

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

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

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

EDUCATIONAL TECHNOLOGY AND SERVICES

(13.6% of fiscal 2014 revenues)

General

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

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

READ 180[®], a reading intervention program for students in grades 4 to 12 reading at least two years below grade level, READ 180 Next Generation, a substantially revised version of the original product; and Read 180 for iPad[®], a comprehensive reading program for iPad;

System 44[®], a foundational reading intervention program for students in grades 4 to 12 who have not yet mastered the 44 sounds and 26 letters of the English language, and System 44 Next Generation, a revised version of the original product;

Scholastic Reading Inventory, which is a research-based, computer-adaptive assessment for grades K to 12 that allows educators to assess a student's reading comprehension;

MATH 180[®], a revolutionary math intervention program for students in grades 6 and up;

iRead[™], a digital foundational reading program for grades K-2; and

Common Core Code X[®], a middle school English Language Arts program with more complex texts required by the Common Core State Standards.

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

CLASSROOM AND SUPPLEMENTAL MATERIALS PUBLISHING

(12.6% of fiscal 2014 revenues)