SCHOLASTIC CORP
Form 10-Q
December 20, 2018

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

Quarterly Report pursuant to section 13 or 15(d) of the Securities Exchange Act of 1934

For the quarterly period ended November 30, 2018 Commission File No. 000-19860

SCHOLASTIC CORPORATION
(Exact name of Registrant as specified in its charter)

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

557 Broadway, New York, New York	10012
(Address of principal executive offices)	(Zip Code)

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

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes x No o

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (229.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files).

Yes x No o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company, or an emerging growth company. See the definitions of “large accelerated filer,” “accelerated filer,” “smaller reporting company,” and “emerging growth company” in Rule 12b-2 of the Exchange Act.

Large accelerated filer	Accelerated filer	Non-accelerated filer	Smaller reporting company	Emerging growth company
x	o	o	o	o

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. o

Indicate by check mark whether the Registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes o No x

Indicate the number of shares outstanding of each of the issuer’s classes of Common Stock, as of the latest practicable date.

Title of each class	Number of shares outstanding as of November 30, 2018
Common Stock, $.01 par value	33,576,240
Class A Stock, $.01 par value	1,656,200

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SCHOLASTIC CORPORATION

FORM 10-Q FOR THE QUARTERLY PERIOD ENDED November 30, 2018

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PART I - FINANCIAL INFORMATION

Item 1. Financial Statements
SCHOLASTIC CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS - UNAUDITED
(Dollar amounts in millions, except per share data)

	Three months ended November 30,		Six months ended November 30,	
	2018	2017	2018	2017
Revenues	$604.7	$598.3	$823.1	$787.5
Operating costs and expenses:				
Cost of goods sold	262.4	253.6	387.7	369.2
Selling, general and administrative expenses	229.7	227.7	393.4	387.2
Depreciation and amortization	14.4	9.8	27.6	19.0
Asset impairments	—	—	—	6.7
Total operating costs and expenses	506.5	491.1	808.7	782.1
Operating income (loss)	98.2	107.2	14.4	5.4
Interest income (expense), net	0.5	0.0	1.3	0.3
Other components of net periodic benefit (cost)	(0.3)	(15.5)	(0.7)	(15.6)
Earnings (loss) before income taxes	98.4	91.7	15.0	(9.9)
Provision (benefit) for income taxes	26.8	34.6	4.7	(3.3)
Net income (loss)	$71.6	$57.1	$10.3	$(6.6)
Basic and diluted earnings (loss) per Share of Class A and Common Stock				
Basic	$2.03	$1.63	$0.29	$(0.19)
Diluted	$1.99	$1.60	$0.29	$(0.19)
Dividends declared per Class A and Common Share	$0.15	$0.15	$0.30	$0.30

See accompanying notes

SCHOLASTIC CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS) - UNAUDITED
(Dollar amounts in millions)

	Three months ended November 30,		Six months ended November 30,	
	2018	2017	2018	2017
Net income (loss)	$71.6	$57.1	$10.3	$(6.6)
Other comprehensive income (loss), net:				
Foreign currency translation adjustments	(0.6)	0.1	(3.7)	3.8
Pension and postretirement adjustments (net of tax)	2.7	9.0	2.9	9.5
Total other comprehensive income (loss), net	$2.1	$9.1	$(0.8)	$13.3
Comprehensive income (loss)	$73.7	$66.2	$9.5	$6.7

See accompanying notes

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SCHOLASTIC CORPORATION
CONDENSED CONSOLIDATED BALANCE SHEETS - UNAUDITED
(Dollar amounts in millions, except per share data)

	November 30, 2018 (Unaudited)	May 31, 2018	November 30, 2017 (Unaudited)
ASSETS			
Current Assets:			
Cash and cash equivalents	$ 358.1	$391.9	$ 387.8
Accounts receivable, net	377.3	204.9	262.4
Inventories, net	365.6	294.9	355.7
Prepaid expenses and other current assets	71.3	66.6	69.2
Total current assets	1,172.3	958.3	1,075.1
Noncurrent Assets:			
Property, plant and equipment, net	571.3	555.6	514.0
Prepublication costs, net	62.1	55.3	46.5
Royalty advances, net	48.9	44.8	46.5
Goodwill	119.1	119.2	119.1
Noncurrent deferred income taxes	41.4	25.2	47.6
Other assets and deferred charges	66.8	67.0	59.5
Total noncurrent assets	909.6	867.1	833.2
Total assets	$ 2,081.9	$1,825.4	$ 1,908.3
LIABILITIES AND STOCKHOLDERS' EQUITY			
Current Liabilities:			
Lines of credit and current portion of long-term debt	$ 13.5	$7.9	$ 11.3
Accounts payable	250.3	198.9	222.1
Accrued royalties	58.5	34.6	46.9
Deferred revenue	187.2	24.7	82.0
Other accrued expenses	227.8	177.9	173.7
Accrued income taxes	2.1	1.8	2.5
Total current liabilities	739.4	445.8	538.5
Noncurrent Liabilities:			
Long-term debt	—	—	—
Other noncurrent liabilities	57.9	58.8	67.1
Total noncurrent liabilities	57.9	58.8	67.1
Commitments and Contingencies (see Note 5)	—	—	—
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	0.0
Common Stock, $0.01 par value: Authorized, 70.0 shares; Issued, 42.9 shares; Outstanding, 33.6, 33.3 and 33.2 shares, respectively	0.4	0.4	0.4
Additional paid-in capital	617.9	614.4	612.3
Accumulated other comprehensive income (loss)	(56.5)	(55.7)	(80.9)
Retained earnings	1,018.4	1,065.2	1,074.1

Treasury stock, at cost: 9.3, 9.6 and 9.7 shares, respectively	(295.6)	(303.5)	(303.2)
Total stockholders’ equity	1,284.6	1,320.8	1,302.7
Total liabilities and stockholders’ equity	$ 2,081.9	$1,825.4	$ 1,908.3

See accompanying notes

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SCHOLASTIC CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS – UNAUDITED
(Dollar amounts in millions)

	Six months ended November 30,	
	2018	2017
Cash flows - operating activities:		
Net income (loss)	10.3	(6.6)
Adjustments to reconcile Net income (loss) to net cash provided by (used in) operating activities:		
Provision for losses on accounts receivable	4.1	6.2
Provision for losses on inventory	7.7	7.2
Provision for losses on royalty advances	2.0	2.2
Amortization of prepublication and production costs	10.7	10.9
Depreciation and amortization	29.1	20.5
Pension settlement	—	15.4
Amortization of pension and postretirement actuarial gains and losses	0.4	1.2
Deferred income taxes	(0.3)	6.2
Stock-based compensation	5.2	7.5
Income from equity investments	(4.5)	(2.7)
Write off related to asset impairments	—	6.7
Changes in assets and liabilities:		
Accounts receivable	(147.5)	(67.9)
Inventories	(82.8)	(78.3)
Prepaid expenses and other current assets	(16.8)	(16.5)
Income tax receivable	7.1	(7.7)
Royalty advances	(6.3)	(6.7)
Accounts payable	62.7	71.2
Other accrued expenses	(0.9)	(4.4)
Returns liability	50.4	—
Accrued income taxes	0.3	(0.4)
Accrued royalties	24.2	12.0
Deferred revenue	76.8	57.5
Pension and postretirement obligations	(1.4)	(8.7)
Other noncurrent liabilities	0.9	1.9
Other, net	8.1	1.7
Total adjustments	29.2	35.0
Net cash provided by (used in) operating activities	39.5	28.4
Cash flows - investing activities:		
Prepublication and production expenditures	(20.6)	(14.7)
Additions to property, plant and equipment (including capitalized software)	(51.3)	(54.0)
Other investment and acquisition related payments	(0.6)	(0.2)
Net cash provided by (used in) investing activities	(72.5)	(68.9)

See accompanying notes

SCHOLASTIC CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS – UNAUDITED
(Dollar amounts in millions)

	Six months ended November 30, 2018	Six months ended November 30, 2017
Cash flows - financing activities:		
Borrowings under lines of credit	29.3	38.5
Repayments of lines of credit	(23.2)	(32.4)
Repayment of capital lease obligations	(0.7)	(0.6)
Reacquisition of common stock	—	(13.3)
Proceeds pursuant to stock-based compensation plans	5.2	3.4
Payment of dividends	(10.6)	(10.6)
Other	—	(0.9)
Net cash provided by (used in) financing activities	0.0	(15.9)
Effect of exchange rate changes on cash and cash equivalents	(0.8)	0.1
Net increase (decrease) in cash and cash equivalents	(33.8)	(56.3)
Cash and cash equivalents at beginning of period	391.9	444.1
Cash and cash equivalents at end of period	$ 358.1	$ 387.8

See accompanying notes

SCHOLASTIC CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS – UNAUDITED
(Dollar amounts in millions, except per share data)

1. BASIS OF PRESENTATION

Principles of consolidation

The accompanying condensed consolidated financial statements include the accounts of Scholastic Corporation (the "Corporation") and all wholly-owned and majority-owned subsidiaries (collectively, "Scholastic" or the "Company"). Intercompany transactions are eliminated in consolidation.

The Company's fiscal year is not a calendar year. Accordingly, references in this document to fiscal 2019 relate to the twelve-month period ending May 31, 2019.

Certain reclassifications have been made to conform to the current year presentation.

Interim Financial Statements

The accompanying unaudited condensed consolidated interim financial statements (referred to as the "Financial Statements" herein) have been prepared in accordance with U.S. generally accepted accounting principles ("GAAP") and Article 10 of Regulation S-X of the U.S. Securities and Exchange Commission ("SEC") for interim financial information, and should be read in conjunction with the Company's Annual Report on Form 10-K for the fiscal year ended May 31, 2018. The Financial Statements presented in this Quarterly Report on Form 10-Q are unaudited; however, in the opinion of management, the Financial Statements reflect all adjustments, consisting solely of normal recurring adjustments, necessary for a fair presentation of the results for the interim periods presented.

Seasonality

The Company's Children's Book Publishing and Distribution school-based book fairs and book club channels and most of its Education businesses operate on a school-year basis; therefore, the Company's business is highly seasonal. As a result, the Company's revenues in the first and third quarters of the fiscal year are generally lower than its revenues in the other two fiscal quarters. Typically, school-based channel and classroom magazine revenues are minimal in the first quarter of the fiscal year as schools are not in session. Trade sales can vary through the year due to varying release dates of published titles. The Company generally experiences a loss from operations in the first and third quarters of each fiscal year.

Use of estimates

The preparation of these Financial Statements involves the use of estimates and assumptions by management, which affects the amounts reported in the 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 certain 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:

- Variable consideration related to anticipated returns
- Accounts receivable allowance for doubtful accounts
- Pension and other postretirement obligations

- Uncertain tax positions
- The timing and amount of future income taxes and related deductions
- Inventory reserves
- Cost of goods sold from book fair operations during interim periods based on estimated gross profit rates
- Sales tax contingencies
- Royalty advance reserves and royalty expense accruals
- Impairment testing for goodwill, intangibles and other long-lived assets and investments
- Assets and liabilities acquired in business combinations
- Revenues for book fairs which have not reported final results
- Allocation of transaction price to performance obligations

New Accounting Pronouncements

Topic 606, Revenue from Contracts with Customers
Refer to Note 2, Revenues, for a discussion of the Company's revenue recognition accounting following the adoption of Accounting Standards Update ("ASU") No. 2014-09, Revenue from Contracts with Customers (Topic 606), and related amendments, in the first quarter of fiscal 2019.

Forthcoming Adoptions:

ASU No. 2016-02. ASU No. 2018-10 and ASU No. 2018-11
In February 2016, the Financial Accounting Standards Board (the "FASB") issued ASU No. 2016-02, Leases (Topic 842) which supersedes existing guidance on accounting for leases in ASC Topic 840, Leases. The amendments in this ASU, among other things, require lessees to account for leases as either finance leases or operating leases and generally requires all leases to be recorded on the balance sheet, through the recognition of right-of-use assets and corresponding lease liabilities. The lease liability should be measured at the present value of the lease payments over the lease term. The right-of-use asset should be measured at the lease liability amount, adjusted for lease prepayments, lease incentives received and lessee's initial direct costs (e.g., commissions). The guidance also requires specific qualitative and quantitative disclosures about leasing activities.

In July 2018, the FASB issued ASU No. 2018-10, Codification Improvements to Topic 842, Leases and ASU No. 2018-11, Leases (Topic 842): Targeted Improvements, which provides an additional (and optional) transition method whereby the new lease standard is applied at the adoption date and recognized as an adjustment to retained earnings.

ASU No. 2016-02, ASU No. 2018-10 and ASU No. 2018-11 are effective for the Company in the first quarter of fiscal 2020 and are required to be applied using the modified retrospective approach for all leases existing as of the effective date. Early adoption is permitted; however, the Company currently does not plan to adopt this standard early and it is evaluating the impact of this standard on its consolidated financial position, results of operations and cash flows. The Company expects that the adoption will result in the recognition of right-of-use assets and lease liabilities related to its operating leases.

2. REVENUES

Adoption of Topic 606, Revenue from Contracts with Customers

In May 2014, the FASB issued ASU No. 2014-09, Revenue from Contracts with Customers (Topic 606) ("Topic 606"). ASU No. 2014-09, along with various amendments that comprise Topic 606, which provides a single model for use in accounting for revenue from contracts with customers and supersedes the previous revenue recognition guidance, including certain industry-specific and transaction-specific guidance. The core principle of Topic 606 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.

The Company adopted Topic 606 on June 1, 2018 and elected to apply Topic 606 using the modified retrospective method. The Company determined that the adoption of Topic 606 had the following impact: (i) a deferral of certain revenue associated with the Company's book fairs incentive program (reflected in Deferred revenue), (ii) recognition of a refund liability (recorded as an increase to Other accrued expenses) and a return asset (recorded as an increase to

Prepaid expenses and other current assets) for the right to recover products from customers upon settling the refund liability based on expected returns and (iii) recognition of previously capitalized direct response advertising costs as incurred, primarily related to the magazines business.

Updates to Significant Accounting Policies

The Company updated its significant accounting policies as a result of the adoption of Topic 606 as follows:

Revenue Recognition - School-Based Book Fairs

Revenues associated with school-based book fairs relate to the sale of children's books and other products to book fair sponsors. In addition, the Company employs an incentive program to encourage the sponsorship of

SCHOLASTIC CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS – UNAUDITED
(Dollar amounts in millions, except per share data)

book fairs and increase the number of fairs held each school year. The Company identifies two performance obligations within its school-based book fair contracts which include the fulfillment of book fairs product and the fulfillment of product upon the redemption of incentive program credits by customers. The Company allocates the transaction price to each performance obligation and recognizes revenue at a point in time. The Company utilizes certain estimates based on historical experience and future expectations related to the participation in the incentive program and redemption patterns to determine the relative fair value of each performance obligation when allocating the transaction price. Changes in these estimates could impact the timing of the recognition of revenue. Revenues allocated to the book fair product will be recognized at the point in which product is delivered to the customer and control is transferred. The revenue allocated to the incentive program credits is recognized upon redemption of incentive credits and the transfer of control of the redeemed product. Incentive credits are generally redeemed within 12 months of issuance. Payment for school-based book fairs product is due at the completion of a customer's fair. The sale of school-based book fair product contains a right of return.

Estimated Returns

For sales that include a right of return, which primarily include the trade and school-based book fair channels, the Company will estimate the transaction price and record revenues as variable consideration based on the amounts the Company expects to ultimately be entitled. In order to determine estimated returns, the Company utilizes historical return rates, sales patterns, types of products and expectations and recognizes a reduction to Revenues and Cost of goods sold. In addition, a refund liability is recorded within Other accrued expenses for the consideration to which the Company believes it will not ultimately be entitled and a return asset is recorded within Prepaid expenses and other current assets for the expected inventory to be returned.

The Company has elected to present sales and other related taxes on a net basis, excluded from revenues, and as such, these are included within Other accrued expenses until remitted to taxing authorities. Shipping and handling costs that are billed to customers are included in Revenues, with costs recorded in Cost of goods sold.

Transition

The Company applied Topic 606 to all contracts as of the date of initial adoption, June 1, 2018. The cumulative effect of adopting Topic 606 was a $46.5 decrease to the opening balance of Retained earnings as of June 1, 2018.

The cumulative effect of the changes made to the Company’s condensed consolidated balance sheet at June 1, 2018 are as follows:

	As reported - May 31, 2018	Adjustments due to adoption		June 1, 2018
Accounts receivable, net	$ 204.9	$ 31.1	(1)	$ 236.0
Inventories, net	294.9	(1.9)	(2)	293.0
Prepaid expenses and other current assets	66.6	(4.3)	(2)(3)	62.3
Noncurrent deferred income taxes	25.2	16.0	(4)	41.2
Deferred revenue	24.7	86.3	(5)	111.0
Other accrued expenses	177.9	1.1	(6)	179.0
Retained earnings	1,065.2	(46.5)		1,018.7

(1) - Primarily represents the reclassification of the Company’s accounting for estimated returns from a reduction to Accounts receivable, net, to a current liability within Other accrued expenses.

(2) - Represents the reclassification of a return asset from Inventory to Prepaid expenses and other current assets.
(3) - Primarily represents the adjustment for previously capitalized direct response advertising costs.
(4) - Represents the income tax impact of Topic 606 adjustments.
(5) - Represents the deferred revenue related to outstanding book fairs incentive credits as of June 1, 2018.
(6) - Represents a reduction to Other accrued expenses of $27.2 for outstanding book fair incentive credits as of June 1, 2018. This decrease was offset by a $28.3 increase for estimated returns recorded to Other accrued expenses.

Application of Topic 606 to the Current Fiscal Year

The comparative prior fiscal period information continues to be reported under the accounting standards in effect during those fiscal periods. The following table illustrates the amounts by which each summarized income statement line item was affected by the adoption of Topic 606:

SCHOLASTIC CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS – UNAUDITED
(Dollar amounts in millions, except per share data)

	As reported	Adjustments		Without adoption of Topic 606
Three months ended November 30, 2018				
Revenues	$604.7	$ 10.8	(1)	$615.5
Cost of goods sold	262.4	2.6	(1)	265.0
Selling, general and administrative expenses	229.7	2.6	(3)	232.3
Depreciation and amortization	14.4	—		14.4
Operating income (loss)	98.2	5.6		103.8
Interest income (expense), net	0.5	—		0.5
Other components of net periodic benefit (cost)	(0.3)	—		(0.3)
Provision (benefit) for income taxes	26.8	1.5	(4)	28.3
Net income (loss)	$71.6	$ 4.1		$75.7
Basic earnings (loss) per share:	$2.03	$ 0.12		$2.15
Diluted earnings (loss) per share:	$1.99	$ 0.11		$2.10
Six months ended November 30, 2018				
Revenues	$823.1	$ (1.7)	(2)	$821.4
Cost of goods sold	387.7	(1.5)	(2)	386.2
Selling, general and administrative expenses	393.4	(0.6)	(3)	392.8
Depreciation and amortization	27.6	—		27.6
Operating income (loss)	14.4	0.4		14.8
Interest income (expense), net	1.3	—		1.3
Other components of net periodic benefit (cost)	(0.7)	—		(0.7)
Provision (benefit) for income taxes	4.7	0.1	(4)	4.8
Net income (loss)	$10.3	$ 0.3		$10.6
Basic earnings (loss) per share:	$0.29	$ 0.01		$0.30
Diluted earnings (loss) per share:	$0.29	$ 0.01		$0.30

(1) - Represents additional deferred revenue and cost of goods sold on incentive credits awarded during the period, partially offset by incremental revenue and cost of goods sold related to the redemption of book fairs incentive credits.
(2) - Represents incremental revenue and cost of goods sold related to the redemption of book fairs incentive program credits, partially offset by additional deferred revenue on incentive credits awarded during the period.
(3) - Represents direct response advertising costs being expensed as incurred.
(4) - Represents the income tax impact of Topic 606 adjustments.

Estimated Returns

As of November 30, 2018, a liability for expected returns of $78.7 is recorded within Other accrued expenses on the Company's condensed consolidated balance sheets. In addition, as of November 30, 2018, a return asset of $9.4 is recorded within Prepaid expenses and other current assets for the recoverable cost of product estimated to be returned by customers.

Deferred Revenue

The Company's contract liabilities consist of advance billings and payments received from customers in excess of revenue recognized and revenue allocated to outstanding book fairs incentive credits. These liabilities are recorded within Deferred revenue on the Company's condensed consolidated balance sheets and are classified as short term as substantially all of the associated performance obligations are expected to be satisfied, and related revenue recognized, within one year. The amount of revenue recognized in the three and six months ended November 30, 2018 included within the opening deferred revenue balance was $30.8 and $62.7, respectively.

SCHOLASTIC CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS – UNAUDITED
(Dollar amounts in millions, except per share data)

Disaggregated Revenue Data

The following table presents the Company’s revenues disaggregated by region and channel:

Three months ended November 30,	2018	2017
Book Clubs	$101.3	$99.9
Book Fairs	220.7	231.0
Trade	95.9	82.8
Total Children's Book Publishing & Distribution	417.9	413.7
Education	71.5	69.0
Major Markets(1)	87.9	88.6
Other Markets(2)	27.4	27.0
Total International	115.3	115.6
Total Revenues	$604.7	$598.3

Six months ended November 30,	2018	2017
Book Clubs	$110.4	$107.9
Book Fairs	245.9	243.1
Trade	157.3	131.6
Total Children's Book Publishing & Distribution	513.6	482.6
Education	119.4	111.9
Major Markets(1)	138.2	140.3
Other Markets(2)	51.9	52.7
Total International	190.1	193.0
Total Revenues	$823.1	$787.5

(1) - Includes Canada, UK, Australia and New Zealand.
(2) - Primarily includes markets in Asia.

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, print and digital 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.

SCHOLASTIC CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS – UNAUDITED
(Dollar amounts in millions, except per share data)

	Children's Book Publishing & Distribution	Education	Overhead (1)	Total Domestic	International	Total
Three months ended November 30, 2018						
Revenues	$ 417.9	$ 71.5	$ —	$ 489.4	$ 115.3	$ 604.7
Bad debt expense	1.6	0.7	—	2.3	0.4	2.7
Depreciation and amortization (2)	5.9	2.1	10.8	18.8	1.8	20.6
Segment operating income (loss)	106.3	8.3	(29.4)	85.2	13.0	98.2
Expenditures for other noncurrent assets (4)	20.2	5.0	15.1	40.3	3.1	43.4
Three months ended November 30, 2017						
Revenues	$ 413.7	$ 69.0	$ —	$ 482.7	$ 115.6	$ 598.3
Bad debt expense	2.2	1.1	—	3.3	1.0	4.3
Depreciation and amortization (2)	5.6	1.7	6.9	14.2	1.7	15.9
Segment operating income (loss)	115.0	3.9	(26.4)	92.5	14.7	107.2
Expenditures for other noncurrent assets (4)	18.2	4.6	17.9	40.7	2.9	43.6
	Children's Book Publishing & Distribution	Education	Overhead (1)	Total Domestic	International	Total
Six months ended November 30, 2018						
Revenues	$ 513.6	$ 119.4	$ —	$ 633.0	$ 190.1	$ 823.1
Bad debt expense	2.4	0.7	—	3.1	1.0	4.1
Depreciation and amortization (2)	11.6	4.1	20.7	36.4	3.4	39.8
Segment operating income (loss)	60.3	(6.6)	(50.3)	3.4	11.0	14.4
Segment assets at November 30, 2018	622.4	175.9	990.6	1,788.9	293.0	2,081.9
Goodwill at November 30, 2018	40.9	68.2	—	109.1	10.0	119.1
Expenditures for other noncurrent assets (4)	31.0	10.1	40.6	81.7	7.4	89.1
Other noncurrent assets at November 30, 2018 (4)	164.1	109.6	499.8	773.5	78.0	851.5
Six months ended November 30, 2017						
Revenues	$ 482.6	$ 111.9	$ —	$ 594.5	$ 193.0	$ 787.5
Bad debt expense	2.7	1.0	—	3.7	2.5	6.2
Depreciation and amortization (2)	11.2	3.5	13.3	28.0	3.4	31.4
Asset impairments (3)	—	—	6.7	6.7	—	6.7
Segment operating income (loss)	56.1	(8.6)	(54.0)	(6.5)	11.9	5.4
Segment assets at November 30, 2017	553.4	174.2	906.9	1,634.5	273.8	1,908.3

Goodwill at November 30, 2017	40.9	68.2	—	109.1	10.0	119.1
Expenditures for other noncurrent assets (4)	28.2	7.0	48.7	83.9	5.0	88.9
Other noncurrent assets at November 30, 2017 (4)	148.3	93.8	456.2	698.3	70.4	768.7

(1) Overhead includes all domestic corporate amounts not allocated to 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 and its facility located in Connecticut.

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

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(3) Impairment charges of $6.7 relate to the prior fiscal year abandonment of legacy building improvements in connection with the Company's renovation of its headquarters in New York City.

(4) Other noncurrent assets include property, plant and equipment, prepublication assets, production assets, royalty advances, goodwill, intangible assets and investments. Expenditures for other noncurrent assets for the International reportable segment include expenditures for long-lived assets of $1.6 and $1.7 for the three months ended November 30, 2018 and November 30, 2017, respectively, and $4.4 and $3.0 for the six months ended November 30, 2018 and November 30, 2017, respectively. Other noncurrent assets for the International reportable segment include long-lived assets of $36.5 and $33.4 as of November 30, 2018 and November 30, 2017, respectively.

4. DEBT

The following table summarizes the carrying value of the Company's debt as of the dates indicated:

	November 30, 2018	May 31, 2018	November 30, 2017
Revolving Loan	$ —	$ —	$ —
Unsecured lines of credit (weighted average interest rates of 3.8%, 2.9% and 3.8%, respectively)	13.5	7.9	11.3
Total debt	$ 13.5	$ 7.9	$ 11.3

The fair value of the Company's debt approximates the carrying value for all periods presented. The Company's debt obligations have maturities of one year or less.

Loan Agreement

Scholastic Corporation and Scholastic Inc. (each, a “Borrower” and together, the “Borrowers”) are parties to a $375.0 credit facility with certain banks (the “Loan Agreement”), which 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 November 30, 2018, 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 November 30, 2018, 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 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 November 30, 2018, the Company had no outstanding borrowings under the Loan Agreement. At November 30, 2018, 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. The Company was in compliance with these covenants for all periods presented.

Lines of Credit

As of November 30, 2018, 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 November 30, 2018, May 31, 2018 or November 30, 2017. As of November 30, 2018, 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 November 30, 2018, the Company had various local currency credit lines totaling $30.0 underwritten by banks primarily in the United States, Canada and the United Kingdom. Outstanding borrowings under these facilities were $13.5 at November 30, 2018 at a weighted average interest rate of 3.8%, $7.9 at May 31, 2018 at a weighted average interest rate of 2.9% and $11.3 at November 30, 2017 at a weighted average interest rate of 3.8%. As of November 30, 2018, the amounts available under these facilities totaled $16.5. 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

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 exists 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.

On June 21, 2018, the U.S. Supreme Court issued its opinion in South Dakota v. Wayfair, Inc. et. al., reversing prior precedent, in particular Quill Corp. v. North Dakota (1992), which held that states could not constitutionally require retailers to collect and remit sales or use taxes in respect to mail order or internet sales made to residents of a state in the absence of the retailer having a physical presence in the taxing state. As a result, the Company will now have an obligation, at least on a go forward basis, based on each state's enforcement date, to collect and remit sales and use taxes, primarily in respect to sales made through its school book club channel, as well as certain sales made through its ecommerce internet sites, to residents in states that the Company has not previously remitted sales or use taxes based on having no physical presence in such states. In the majority opinion, several factors were discussed in support of the Court's reasoning that the collection of sales and use taxes from out-of-state retailers did not constitute an undue burden on interstate commerce, including the fact that South Dakota did not require retroactive application of its statute. However, the question of retroactive application, as well as certain other factors noted in the opinion, will be subject to how the states, on a state-by-state basis, interpret and apply the Court's decision in their implementation of their respective state laws or regulations addressing the collection of sales and use taxes from out-of-state retailers. As a result, how the decision will affect the Company will depend on the positions taken by the states, on a state-by-state basis, relating to the retroactive application of the obligation to collect such taxes, as well as other factors noted in the opinion.

The Company has taken steps towards compliance based on anticipated enforcement dates and an assumption as to each state's likely interpretation and application of the Court's decision. As the Company continues to monitor each state, the staggered enforcement dates, and the progress towards compliance, expenses will be incurred by the Company.

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As of November 30, 2018, the Company’s school book club channel now remits sales taxes in thirteen states compared to nine in the prior year and, as a result, the Company has incurred additional costs for the three and six months ending November 30, 2018 related to sales tax on the associated revenue. Any on-going or future litigation with states relating to sales and use taxes could be impacted favorably or unfavorably by legislative action in future fiscal periods.

6. 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 periods indicated:

	Three months ended November 30,		Six months ended November 30,	
	2018	2017	2018	2017
Net income (loss) attributable to Class A and Common Shares	$71.4	$57.0	$10.3	$(6.6)
Weighted average Shares of Class A Stock and Common Stock outstanding for basic earnings (loss) per share (in millions)	35.2	35.0	35.2	35.1
Dilutive effect of Class A Stock and Common Stock potentially issuable pursuant to stock-based compensation plans (in millions) *	0.7	0.6	0.6	—
Adjusted weighted average Shares of Class A Stock and Common Stock outstanding for diluted earnings (loss) per share (in millions)	35.9	35.6	35.8	35.1
Earnings (loss) per share of Class A Stock and Common Stock:				
Basic	$2.03	$1.63	$0.29	$(0.19)
Diluted	$1.99	$1.60	$0.29	$(0.19)

* In the six month period ended November 30, 2017, the Company experienced a Net loss and therefore did not report any dilutive share impact.

The following table sets forth options outstanding pursuant to stock-based compensation plans as of the dates indicated:

	November 30, 2018	November 30, 2017
Options outstanding pursuant to stock-based compensation plans (in millions)	2.9	3.2

There were less than 0.1 million of potentially anti-dilutive shares pursuant to stock-based compensation plans as of November 30, 2018.

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.

Net income attributable to Class A and Common Shares excludes earnings of $0.2 and $0.1 for the three months ended November 30, 2018 and 2017, respectively, and earnings of less than $0.1 for the six months ended

November 30, 2018, attributable to participating RSUs. In the six month period ended November 30, 2017, the Company experienced a Net loss and did not allocate any losses to the participating RSUs.

As of November 30, 2018, $61.4 remained available for future purchases of common shares under the repurchase authorization of the Board of Directors (the "Board") in effect on that date. See Note 11, Treasury Stock, for a more complete description of the Company's share buy-back program.

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7. GOODWILL AND OTHER INTANGIBLES

The Company assesses goodwill and other intangible assets with indefinite lives annually or more frequently if impairment indicators are such that the goodwill is more likely than not impaired. The Company continues to monitor impairment indicators in light of changes in market conditions, near and long-term demand for the Company’s products and other relevant factors.

The following table summarizes the activity in Goodwill for the periods indicated:

	Six months ended November 30, 2018	Twelve months ended May 31, 2018	Six months ended November 30, 2017
Gross beginning balance	$ 158.8	$ 158.5	$ 158.5
Accumulated impairment	(39.6)	(39.6)	(39.6)
Beginning balance	$ 119.2	$ 118.9	$ 118.9
Foreign currency translation	(0.1)	0.2	0.2
Other	—	0.1	—
Ending balance	$ 119.1	$ 119.2	$ 119.1

Accumulated goodwill impairment losses totaled $39.6 as of November 30, 2018, May 31, 2018 and November 30, 2017. There were no goodwill impairment losses during the six months ended November 30, 2018 and November 30, 2017.

The following table summarizes the activity in other intangibles included in Other assets and deferred charges on the Company’s condensed consolidated balance sheets for the periods indicated:

	Six months ended November 30, 2018	Twelve months ended May 31, 2018	Six months ended November 30, 2017
Beginning balance other intangibles subject to amortization	$ 10.1	$ 9.0	$ 9.0
Additions	0.6	3.3	0.1
Amortization expense	(1.3)	(2.1)	(1.0)
Foreign currency translation	(0.1)	(0.1)	0.1
Total other intangibles subject to amortization, net of accumulated amortization of $25.4, $24.1 and $22.9, respectively	$ 9.3	$ 10.1	$ 8.2
Total other intangibles not subject to amortization	$ 2.1	$ 2.1	$ 2.1
Total other intangibles	$ 11.4	$ 12.2	$ 10.3

In the first quarter of fiscal 2019, the Company purchased a UK-based book club business and a U.S.-based book fair business resulting in the recognition of $0.6 of definite-lived intangible assets. The results of operations of these businesses are included within the International and Children's Book Publishing & Distribution segments, respectively.

Intangible assets with definite lives consist principally of customer lists and intellectual property rights. Intangible assets with definite lives are amortized over their estimated useful lives. The weighted-average remaining useful life of all definite-lived intangible assets is approximately 3.7 years. Intangible assets with indefinite lives consist principally of trademark and trademark rights.

8. INVESTMENTS

Included in Other assets and deferred charges on the Company's condensed consolidated balance sheets were investments of $34.3, $31.1 and $31.6 at November 30, 2018, May 31, 2018 and November 30, 2017, 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,

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and subject to its provisions, the Company will likely purchase the remaining outstanding shares in MBI following the completion of MBI's accounts for the calendar year 2018 and subject to the provisions of the purchase agreement. The net carrying value of this investment was $12.3, $10.6 and $10.6 at November 30, 2018, May 31, 2018 and November 30, 2017, respectively. Equity method income from this investment is reported in the International segment.

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. The net carrying value of this investment was $22.0, $20.5 and $21.0 at November 30, 2018, May 31, 2018 and November 30, 2017, respectively. Equity method income from this investment is reported in the International segment.

The Company has other equity and cost method investments that had a net carrying value of less than $0.1 for all periods presented.

Income from equity investments reported in Selling, general and administrative expenses in the condensed consolidated statements of operations totaled $2.5 and $1.5 for the three months ended November 30, 2018 and November 30, 2017, respectively, and $4.5 and $2.7 for the six months ended November 30, 2018 and November 30, 2017, respectively.

9. EMPLOYEE BENEFIT PLANS

The following table sets forth components of the net periodic benefit (cost) for the periods indicated under the Company’s cash balance retirement plan for its United States employees meeting certain eligibility requirements (the “U.S. Pension Plan”) and the defined benefit pension plan of Scholastic Ltd., an indirect subsidiary of Scholastic Corporation located in the United Kingdom (the “UK Pension Plan” and, together with the U.S. Pension Plan, the “Pension Plans”). Also included are postretirement benefits, consisting of certain healthcare and life insurance benefits provided by the Company to its eligible retired United States-based employees (the “Postretirement Benefits”).

	U.S. Pension Plan		UK Pension Plan		Postretirement Benefits	
	Three months ended November 30,		Three months ended November 30,		Three months ended November 30,	
	2018	2017	2018	2017	2018	2017
Components of net periodic (benefit) cost:						
Service cost	$ —	$ —	$ —	$ —	$ 0.0	$ 0.0
Interest cost	—	0.8	0.3	0.2	0.2	0.2
Expected return on assets	—	(1.5)	(0.3)	(0.2)	—	—
Net amortization of prior service credit	—	—	—	—	(0.1)	—
Benefit cost of settlement event	—	15.4	—	—	—	—
Amortization of (gains) losses	—	0.3	0.2	0.3	—	0.0
Net periodic (benefit) cost	$ —	$ 15.0	$ 0.2	$ 0.3	$ 0.1	$ 0.2

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	U.S. Pension Plan		UK Pension Plan		Postretirement Benefits	
	Six months ended November 30,		Six months ended November 30,		Six months ended November 30,	
	2018	2017	2018	2017	2018	2017
Components of net periodic (benefit) cost:						
Service cost	$—	$—	$—	$—	$ 0.0	$ 0.0
Interest cost	—	1.5	0.5	0.5	0.4	0.5
Expected return on assets	—	(3.0)	(0.5)	(0.5)	—	—
Net amortization of prior service credit	—	—	—	—	(0.1)	—
Benefit cost of settlement event	—	15.4	—	—	—	—
Amortization of (gains) losses	—	0.6	0.4	0.6	—	0.0
Net periodic (benefit) cost	$—	$ 14.5	$0.4	$0.6	$ 0.3	$ 0.5

On July 20, 2016, the Board approved the termination of the U.S. Pension Plan, in which all benefit accruals were previously frozen as of June 1, 2009. Based on the U.S. Pension Plan's 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, and the U.S. Pension Plan was terminated in fiscal 2018. During fiscal 2018, the U.S. Pension Plan made $37.8 of lump sum benefit payments to vested plan participants and purchased group annuity contracts for the remaining U.S. Pension Plan vested participants for a total cost of $86.3, paid to the respective insurers. As a result of the termination, pretax plan settlement charges of $57.3 were recognized in fiscal 2018.

The Company's funding practice with respect to the UK Pension Plan is to contribute on an annual basis at least the minimum amounts required by applicable law. For the six months ended November 30, 2018, the Company contributed $0.6 to the UK Pension Plan. The Company expects, based on actuarial calculations, to contribute cash of approximately $1.1 to the UK Pension Plan for the fiscal year ending May 31, 2019.

In the second quarter of fiscal 2019, the Company announced a change in benefits for certain postretirement benefit plan participants. Beginning January 1, 2019, the plan will establish Health Reimbursement Accounts (HRAs) to provide these participants with additional flexibility to choose healthcare options based on individual needs. As a result of this change, the Company remeasured its Postretirement Benefit obligation as of November 30, 2018, and recognized a reduction of $2.7 to its benefit obligation and a reduction to its accumulated comprehensive loss of $2.7 in the second quarter of fiscal 2019. The related prior service credit will be amortized as a Component of net periodic benefit (cost) over the average remaining life expectancy of plan participants of approximately 13 years.

10. STOCK-BASED COMPENSATION

The following table summarizes stock-based compensation expense included in Selling, general and administrative expenses for the periods indicated:

	Three months ended	Six months ended November

	November 30,		30,	
	30,			
	2018	2017	2018	2017
Stock option expense	$ 2.8	$ 4.6	$ 3.6	$ 5.4
Restricted stock unit expense	0.7	0.8	1.3	1.4
Management stock purchase plan	0.2	0.6	0.2	0.6
Employee stock purchase plan	0.0	0.0	0.1	0.1
Total stock-based compensation expense	$ 3.7	$ 6.0	$ 5.2	$ 7.5

The following table sets forth Common Stock issued pursuant to stock-based compensation plans for the periods indicated:

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	Three months ended November 30,		Six months ended November 30,	
	2018	2017	2018	2017
Common Stock issued pursuant to stock-based compensation plans (in millions)	0.2	0.1	0.3	0.2

11. TREASURY STOCK

The Board has authorized the Company to repurchase Common Stock, from time to time as conditions allow, on the open market or through negotiated private transactions.

The table below represents the Board authorizations at the dates indicated:

Authorizations	Amount
July 2015	$50.0
March 2018	50.0
Total current Board authorizations	$100.0
Less repurchases made under these authorizations	$(38.6)
Remaining Board authorization at November 30, 2018	$61.4

There were no repurchases of the Company's Common Stock for the three and six months ended November 30, 2018. The Company’s repurchase program may be suspended at any time without prior notice.

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12. ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)

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

	Three months ended November 30, 2018		
	Foreign currency translation adjustments	Retirement benefit plans	Total
Beginning balance at September 1, 2018	$(45.0)	$ (13.6)	$(58.6)
Other comprehensive income (loss) before reclassifications	(0.6)	—	(0.6)
Less amount reclassified from Accumulated other comprehensive income (loss):			
Amortization of gains and losses (net of tax of $0.0)	—	0.2	0.2
Postretirement benefit plan remeasurement (net of tax of $0.7)	—	2.0	2.0
Amortization of prior service credit (net of tax of $0.0)	—	(0.1)	(0.1)
Other reclassifications (net of tax of $0.2)	—	0.6	0.6
Other comprehensive income (loss)	(0.6)	2.7	2.1
Ending balance at November 30, 2018	$(45.6)	$ (10.9)	$(56.5)

	Three months ended November 30, 2017		
	Foreign currency translation adjustments	Retirement benefit plans	Total
Beginning balance at September 1, 2017	$(41.6)	$ (48.4)	$(90.0)
Other comprehensive income (loss) before reclassifications	0.1	—	0.1
Less amount reclassified from Accumulated other comprehensive income (loss):			
Benefit from settlement (net of tax of $6.2)	—	9.2	9.2
Amortization of gains and losses (net of tax of $0.1)	—	0.4	0.4
Other reclassifications (net of tax of $0.5)	—	(0.6)	(0.6)
Other comprehensive income (loss)	0.1	9.0	9.1
Ending balance at November 31, 2017	$(41.5)	$ (39.4)	$(80.9)

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	Six months ended November 30, 2018		
	Foreign currency translation adjustments	Retirement benefit plans	Total
Beginning balance at June 1, 2018	$(41.9)	$ (13.8)	$(55.7)
Other comprehensive income (loss) before reclassifications	(3.7)	—	(3.7)
Less amount reclassified from Accumulated other comprehensive income (loss):			
Amortization of gains and losses (net of tax of $0.0)	—	0.4	0.4
Postretirement benefit plan remeasurement (net of tax of $0.7)	—	2.0	2.0
Amortization of prior service credit (net of tax of $0.0)	—	(0.1)	(0.1)
Other reclassifications (net of tax of $0.2)	—	0.6	0.6
Other comprehensive income (loss)	(3.7)	2.9	(0.8)
Ending balance at November 30, 2018	$(45.6)	$ (10.9)	$(56.5)

	Six months ended November 30, 2017		
	Foreign currency translation adjustments	Retirement benefit plans	Total
Beginning balance at June 1, 2017	$(45.3)	$ (48.9)	$(94.2)
Other comprehensive income (loss) before reclassifications	3.8	—	3.8
Less amount reclassified from Accumulated other comprehensive income (loss):			
Benefit from settlement (net of tax of $6.2)	—	9.2	9.2
Amortization of gains and losses (net of tax of $0.2)	—	0.9	0.9
Other reclassifications (net of tax of $0.5)	—	(0.6)	(0.6)
Other comprehensive income (loss)	3.8	9.5	13.3
Ending balance at November 31, 2017	$(41.5)	$ (39.4)	$(80.9)

The following table presents the impact on earnings of reclassifications out of Accumulated other comprehensive income (loss) for the periods indicated:

	Three months ended November 30,		Six months ended November 30,		Condensed consolidated statements of operations line item
	2018	2017	2018	2017	
Employee benefit plans:					
Amortization of unrecognized (gain) loss	$0.2	$0.6	0.4	1.2	Other components of net periodic benefit (cost)
Settlement charge	—	15.4	—	15.4	Other components of net periodic benefit (cost)
Amortization of prior service credit	(0.1)	—	(0.1)	—	Other components of net periodic benefit (cost)
Less: Tax effect	0.0	(6.3)	0.0	(6.4)	(Provision) benefit for income taxes

Total cost, net of tax	$0.1	$9.7	$0.3	$10.2

13. 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.

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- Level 2 Observable inputs other than quoted prices included in Level 1, including quoted prices for similar assets or liabilities in active markets, quoted prices for identical assets or liabilities in inactive markets, inputs other than quoted prices that are obser