LAMAR MEDIA CORP/DE
Form 10-K
February 27, 2012
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-K

(Mark One)

x **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the fiscal year ended December 31, 2011

¨ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the transition period from to

Commission File Number 0-30242

Lamar Advertising Company

Commission File Number 1-12407

Lamar Media Corp.

(Exact names of registrants as specified in their charters)

Delaware	**72-1449411**
Delaware	**72-1205791**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**
5321 Corporate Blvd., Baton Rouge, LA	**70808**
(Address of principal executive offices)	**(Zip Code)**

Registrants telephone number, including area code: (225) 926-1000

SECURITIES OF LAMAR ADVERTISING COMPANY

REGISTERED PURSUANT TO SECTION 12(b) OF THE ACT:

Class A common stock, $0.001 par value

SECURITIES OF LAMAR ADVERTISING COMPANY

REGISTERED PURSUANT TO SECTION 12(g) OF THE ACT:

None

SECURITIES OF LAMAR MEDIA CORP.

REGISTERED PURSUANT TO SECTION 12(b) OF THE ACT:

None

SECURITIES OF LAMAR MEDIA CORP.

REGISTERED PURSUANT TO SECTION 12(g) OF THE ACT:

None

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

Indicate by check mark if Lamar Advertising Company is not required to file reports pursuant to Section 13 or Section 15(d) of the Exchange Act. Yes ¨ No x

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

Indicate by check mark if Lamar Media Corp. is not required to file reports pursuant to Section 13 or Section 15(d) of the Exchange Act. Yes x No ¨

Indicate by check mark whether each 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 ¨

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

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 Lamar Advertising Company 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. ¨

Indicate by check mark whether Lamar Advertising Company is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definitions of accelerated filer , large accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act.

Large accelerated filer x	Accelerated filer ¨
Non-accelerated filer ¨ (Do not check if a smaller reporting company)	Smaller reporting company ¨

Indicate by check mark whether Lamar Media Corp. is a large accelerated filer, an accelerated filer, non-accelerated filer, or a smaller reporting company. See definitions of accelerated filer , large accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act.

Large accelerated filer ¨	Accelerated filer ¨
Non-accelerated filer x (Do not check if a smaller reporting company)	Smaller reporting company ¨

Indicate by check mark if either registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ¨ No x

As of June 30, 2011, the aggregate market value of the voting stock held by nonaffiliates of Lamar Advertising Company was $1,593,697,650 based on $27.37 per share as reported on the NASDAQ National Market System.

As of June 30, 2011, the aggregate market value of the voting stock held by nonaffiliates of Lamar Media Corp. was $0.

Indicate the number of shares outstanding of each of the issuers classes of common stock, as of the latest practicable date.

Class	**Outstanding at February 18, 2012**
Lamar Advertising Company Class A common stock, $0.001 par value per share	78,149,347 shares
Lamar Advertising Company Class B common stock, $0.001 par value per share	14,910,365 shares
Lamar Media Corp. common stock, $0.001 par value per share	100 shares

DOCUMENTS INCORPORATED BY REFERENCE

Document	**Parts into Which Incorporated**

Proxy Statement for the Annual Meeting of Stockholders scheduled to be held on May 24, 2012 (Proxy Statement)	Part III

This combined Form 10-K is separately filed by (i) Lamar Advertising Company and (ii) Lamar Media Corp. (which is a wholly owned subsidiary of Lamar Advertising Company). Lamar Media Corp. meets the conditions set forth in general instruction I(1) (a) and (b) of Form 10-K and is, therefore, filing this form with the reduced disclosure format permitted by such instruction.

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NOTE REGARDING FORWARD-LOOKING STATEMENTS

Certain information included in this report is forward-looking in nature within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. This report uses terminology such as anticipates, believes, plans, expects, future, inte may, will, should, estimates, predicts, potential, continue and similar expressions to identify forward-looking statements. Examples of forward-looking statements in this report include statements about:

- our future financial performance and condition;
- our business plans, objectives, prospects, growth and operating strategies;
- our future capital expenditures and level of acquisition activity;
- market opportunities and competitive positions;
- our future cash flows and expected cash requirements;
- estimated risks; and
- stock price.

Forward-looking statements are subject to known and unknown risks, uncertainties and other important factors, including but not limited to the following, any of which may cause our actual results, performance or achievements to differ materially from those expressed or implied by the forward-looking statements:

- the current economic environment and its affect on the markets in which we operate;
- the levels of expenditures on advertising in general and outdoor advertising in particular;
- risks and uncertainties relating to our significant indebtedness;
- our need for, and ability to obtain, additional funding for acquisitions and operations;
- increased competition within the outdoor advertising industry;
- the regulation of the outdoor advertising industry;

our ability to renew expiring contracts at favorable rates;

the integration of businesses that we acquire and our ability to recognize cost savings and operating efficiencies as a result of these acquisitions;

our ability to successfully implement our digital deployment strategy; and

changes in accounting principles, policies or guidelines.

The forward-looking statements in this report are based on our current good faith beliefs, however, actual results may differ due to inaccurate assumptions, the factors listed above or other foreseeable or unforeseeable factors. Consequently, we cannot guarantee that any of the forward-looking statements will prove to be accurate. The forward-looking statements in this report speak only as of the date of this report, and Lamar Advertising Company and Lamar Media Corp. expressly disclaim any obligation or undertaking to update or revise any forward-looking statement contained in this report, except as required by law.

INDUSTRY AND MARKET DATA

The industry and market data presented throughout this report are based on the experience and estimates of our management and the data in reports issued by third-parties, including the Outdoor Advertising Association of America (OAAA). In each case, we believe this industry and market data is reasonable. We have not, however, independently verified the industry and market data derived from third-party sources, and no independent source has verified the industry and market data derived from management s experience and estimates.

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PART I

ITEM 1. ***BUSINESS***
General

Lamar Advertising Company, referred to in this Annual Report as the Company or Lamar Advertising or we is one of the largest outdoor advertising companies in the United States based on number of displays and has operated under the Lamar name since 1902. We operate in a single operating and reporting segment, advertising. We sell advertising on billboards, buses, shelters, benches and logo plates. As of December 31, 2011, we owned and operated over 143,000 billboard advertising displays in 44 states, Canada and Puerto Rico, over 112,000 logo advertising displays in 21 states and the province of Ontario, Canada, and operated over 30,000 transit advertising displays in 16 states, Canada and Puerto Rico. We offer our customers a fully integrated service, satisfying all aspects of their billboard display requirements from ad copy production to placement and maintenance.

Our Business

We operate three types of outdoor advertising displays: billboards, logo signs and transit advertising displays.

Billboards. We sell most of our advertising space on two types of billboards: bulletins and posters.

- *Bulletins* are generally large, illuminated advertising structures that are located on major highways and target vehicular traffic.

- *Posters* are generally smaller advertising structures that are located on major traffic arteries and city streets and target vehicular and pedestrian traffic.

In addition to these traditional billboards, we also sell digital billboards, which are generally located on major traffic arteries and city streets. As of December 31, 2011, we owned and operated over 1,400 digital billboard advertising displays in 40 states, Canada and Puerto Rico.

Logo signs. We sell advertising space on logo signs located near highway exits.

- *Logo signs* generally advertise nearby gas, food, camping, lodging and other attractions.

We are the largest provider of logo signs in the United States, operating 21 of the 27 privatized state logo sign contracts. As of December 31, 2011, we operated over 112,000 logo sign advertising displays in 21 states and Canada.

Transit advertising displays. We also sell advertising space on the exterior and interior of public transportation vehicles, transit shelters and benches in approximately 60 markets. As of December 31, 2011, we operated over 30,000 transit advertising displays in 16 states, Canada and Puerto Rico.

Corporate History

We have operated under the Lamar name since our founding in 1902 and have been publicly traded on NASDAQ under the symbol LAMR since 1996. We completed a reorganization on July 20, 1999 that created our current holding company structure. At that time, the operating company (then called Lamar Advertising Company) was renamed Lamar Media Corp., and all of the operating company s stockholders became stockholders of a new holding company. The new holding company then took the Lamar Advertising Company name, and Lamar Media Corp. became a wholly owned subsidiary of Lamar Advertising Company.

In this Annual Report, we refer to Lamar Advertising Company and its consolidated subsidiaries, unless the context otherwise requires, as the Company or we and Lamar Advertising s wholly owned subsidiary Lamar Media Corp. as Lamar Media.

Where you can find more information

We make our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and amendments to these reports available free of charge through our website, www.lamar.com, as soon as reasonably practicable after filing them with, or furnishing them to, the Securities and Exchange Commission. Information contained on the website is not part of this Annual Report.

Operating Strategies

We strive to be a leading provider of outdoor advertising services in each of the markets that we serve, and our operating strategies for achieving that goal include:

Continuing to provide high quality local sales and service. We seek to identify and closely monitor the needs of our customers and to provide them with a full complement of high quality advertising services. Local advertising constituted approximately 78% of our net revenues for the year ended December 31, 2011, which management believes is higher than the industry average. We believe that the experience of our regional and local managers has contributed greatly to our success. For example, our regional managers have been with us for an average of 29 years. In an effort to provide high quality sales and service at the local level, we employed over 760 local account executives as of December 31, 2011. Local account executives are typically supported by additional local staff and have the ability to draw upon the resources of our central office, as well as, our offices in other markets, in the event business opportunities or customers needs support such an allocation of resources.

Continuing a centralized control and decentralized management structure. Our management believes that, for our particular business, centralized control and a decentralized organization provide for greater economies of scale and are more responsive to local market demands. Therefore, we maintain centralized accounting and financial control over our local operations, but our local managers are responsible for the day-to-day operations in each local market and are compensated according to that market s financial performance.

Continuing to focus on internal growth. Within our existing markets, we seek to increase our revenue and improve cash flow by employing highly-targeted local marketing efforts to improve our display occupancy rates and by increasing advertising rates where and when demand can absorb rate increases. Our local offices spearhead this effort and respond to local customer demands quickly.

In addition, we routinely invest in upgrading our existing displays and constructing new displays. From January 1, 2000 to December 31, 2011, we invested approximately $1.35 billion in capitalized expenditures, which include improvements to our existing displays and in constructing new displays. Our regular improvement and expansion of our advertising display inventory allows us to provide high quality service to our current advertisers and to attract new advertisers.

Continuing to pursue other outdoor advertising opportunities. We plan to pursue additional logo sign contracts. Logo sign opportunities arise periodically, both from states initiating new logo sign programs and states converting from government-owned and operated programs to privately-owned and operated programs. Furthermore, we plan to pursue additional tourist oriented directional sign programs in both the United States and Canada and also other motorist information signing programs as opportunities present themselves. In addition, in an effort to maintain market share, we continue to pursue attractive transit advertising opportunities as they become available.

Reinvesting in capital expenditures including digital technology. We have historically invested in capital expenditures, however, during 2009 and 2010, we significantly reduced our capital expenditures to position the Company to manage through the economic recession. As a result of the economic recovery, the Company began to reinvest in capital expenditures during 2011. We spent approximately $107 million in total capital expenditures in fiscal 2011, of which $41.3 million was spent on digital technology. We expect our 2012 capitalized expenditures to closely approximate our spending in 2011.

COMPANY OPERATIONS

Billboard Advertising

We sell most of our advertising space on two types of billboard advertising displays: bulletins and posters. As of December 31, 2011, we owned and operated over 143,000 billboard advertising displays in 44 states, Canada and Puerto Rico. In 2011, we derived approximately 72% of our billboard advertising net revenues from bulletin sales and 28% from poster sales.

Bulletins are large, advertising structures (the most common size is fourteen feet high by forty-eight feet wide, or 672 square feet) consisting of panels on which advertising copy is displayed. We wrap advertising copy printed with computer-generated graphics on a single sheet of vinyl around the structure. To attract more attention, some of the panels may extend beyond the linear edges of the display face and may include three-dimensional embellishments. Because of their greater impact and higher cost, bulletins are usually located on major highways and target vehicular traffic. At December 31, 2011, we operated approximately 66,000 bulletin displays.

We generally sell individually-selected bulletin space to advertisers for the duration of the contract (usually one to twelve months). We also sell bulletins as part of a rotary plan under which we rotate the advertising copy from one bulletin location to another within a particular market at stated intervals (usually every sixty to ninety days) to achieve greater reach within that market.

Posters are smaller advertising structures (the most common size is eleven feet high by twenty-three feet wide, or 250 square feet; we also operate junior posters, which are five feet high by eleven feet wide, or 55 square feet). Poster panels utilize a single flexible sheet of polyethylene material that inserts into the face of the panel. Posters are concentrated on major traffic arteries and target vehicular traffic, and junior posters are concentrated on city streets and target hard-to-reach pedestrian traffic and nearby residents. At December 31, 2011, we operated approximately 77,000 poster displays.

We generally sell poster space for thirty- and sixty-day periods in packages called showings, which comprise a given number of displays in a specified market area. We place and spread out the displays making up a showing in well-traveled areas to reach a wide audience in the particular market.

In addition to the traditional displays described above, we also sell digital billboards. Digital billboards are large electronic light emitting diode (LED) displays (the most common sizes are fourteen feet high by forty feet wide, or 560 square feet; ten and a half feet high by thirty six feet wide, or 378 square feet; and ten feet high by twenty-one feet wide, or 210 square feet) that are generally located on major traffic arteries and city streets. Digital billboards are capable of generating over one billion colors and vary in brightness based on ambient conditions. They display completely digital advertising copy from various advertisers in a slide show fashion, rotating each advertisement approximately every 6 to 8 seconds. At December 31, 2011, we operated over 1,400 digital billboards in various markets, which represents approximately 14% of billboard revenue.

We own the physical structures on which the advertising copy is displayed. We build the structures on locations we either own or lease. In each local office one employee typically performs site leasing activities for the markets served by that office. See Item 2. Properties.

In the majority of our markets, our local production staffs perform the full range of activities required to create and install billboard advertising displays. Production work includes creating the advertising copy design and layout, coordinating its printing and installing the designs on the displays. We provide our production services to local advertisers and to advertisers that are not represented by advertising agencies, as most national advertisers represented by advertising agencies use preprinted designs that require only our installation. Our talented design staff uses state-of-the-art technology to prepare creative, eye-catching displays for our customers. We can also help with the strategic placement of advertisements throughout an advertiser s market by using software that allows us to analyze the target audience and its demographics. Our artists also assist in developing marketing presentations, demonstrations and strategies to attract new customers.

In marketing billboard displays to advertisers, we compete with other forms of out-of-home advertising and other media. When selecting the media and provider through which to advertise, advertisers consider a number of factors and advertising providers which are described in the section entitled Competition below.

Logo Sign Advertising

We entered the logo sign advertising business in 1988 and have become the largest provider of logo sign services in the United States, operating 21 of the 27 privatized state logo contracts. We erect logo signs, which generally advertise nearby gas, food, camping, lodging and other attractions, and directional signs, which direct vehicle traffic to nearby services and tourist attractions, near highway exits. As of December 31, 2011, we operated over 34,000 logo sign structures containing over 112,000 logo advertising displays in the United States and Canada.

We operate the logo sign contracts in the province of Ontario, Canada and in the following states:

Colorado	Georgia	Louisiana	Minnesota	Nebraska	New Mexico	South Carolina
Delaware	Kansas	Maine	Mississippi	Nevada	Ohio	Utah
Florida	Kentucky	Michigan	Missouri(1)	New Jersey	Oklahoma	Virginia

(1) The logo sign contract in Missouri is operated by a 66 2/3% owned partnership.

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We also operate the tourist oriented directional signing (TODS) programs for the states of Nevada, Colorado, Nebraska, Missouri, Michigan, Ohio, Kansas, Kentucky, Virginia, Louisiana and New Jersey, and the province of Ontario, Canada.

Our logo and TODS operations are decentralized. Generally, each office is staffed with an experienced local general manager, local sales and office staff and a local signing sub-contractor. This decentralization allows the management staff of Interstate Logos, L.L.C. (the subsidiary that operates all of the logo and directional sign-related businesses) to travel extensively to the various operations and serve in a technical and management advisory capacity and monitor regulatory and contract compliance. We also run a silk screening operation in Baton Rouge, Louisiana and a display construction company in Atlanta, Georgia.

State logo sign contracts represent the exclusive right to erect and operate logo signs within a state for a period of time. The terms of the contracts vary, but generally range from five to ten years, with additional renewal terms. Each logo sign contract generally allows the state to terminate the contract prior to its expiration and, in most cases, with compensation for the termination to be paid to the company. When a logo sign contract expires, we transfer ownership of the advertising structures to the state. Depending on the contract, we may or may not be entitled to compensation at that time. Of our twenty-two logo sign contracts in place, in the United States and Canada, at December 31, 2011, two are subject to renewal in 2012.

States usually award new logo sign contracts and renew expiring logo sign contracts through an open proposal process. In bidding for new and renewal contracts, we compete against three other national logo sign providers, as well as local companies based in the state soliciting proposals.

In marketing logo signs to advertisers, we compete with other forms of out-of-home advertising and other media. When selecting the media and provider through which to advertise, advertisers consider a number of factors and advertising providers which are described in the section entitled Competition below.

Transit Advertising

We entered into the transit advertising business in 1993 as a way to complement our existing business and maintain market share in certain markets. We provide transit advertising displays on bus shelters, benches and buses in approximately 60 transit markets, and our production staff provides a full range of creative and installation services to our transit advertising customers. As of December 31, 2011, we operated over 30,000 transit advertising displays in 16 states, Canada and Puerto Rico.

Municipalities usually award new transit advertising contracts and renew expiring transit advertising contracts through an open bidding process. In bidding for new and renewal contracts, we compete against national outdoor advertising providers and local, on-premise sign providers and sign construction companies. Transit advertising operators incur significant start-up costs to build and install the advertising structures (such as transit shelters) upon being awarded contracts.

In marketing transit advertising displays to advertisers, we compete with other forms of out-of-home advertising and other media. When selecting the media and provider through which to advertise, advertisers consider a number of factors and advertising providers which are described in the section entitled Competition below.

COMPETITION

Although the outdoor advertising industry has encountered a wave of consolidation, the industry remains fragmented. The industry is comprised of several large outdoor advertising and media companies with operations in multiple markets, as well as smaller, local companies operating a limited number of structures in one or a few local markets.

Although we primarily focus on small to mid-size markets where we can attain a strong market share, in each of our markets, we compete against other providers of outdoor advertising and other types of media, including:

- Larger outdoor advertising providers, such as (i) Clear Channel Outdoor Holdings, Inc., which operates billboards, street furniture displays, transit displays and other out-of-home advertising displays in North America and worldwide and (ii) CBS Outdoor, a division of CBS Corporation, which operates traditional outdoor, street furniture and transit advertising properties in North America and worldwide. Clear Channel Outdoor and CBS Outdoor each have corporate relationships with large media conglomerates and may have greater total resources, product offerings and opportunities for cross-selling than we do.

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Other forms of media, such as broadcast and cable television, radio, print media, direct mail marketing, telephone directories and the Internet.

An increasing variety of out-of-home advertising media, such as advertising displays in shopping centers, malls, airports, stadiums, movie theaters and supermarkets and advertising displays on taxis, trains and buses.

In selecting the form of media through which to advertise, advertisers evaluate their ability to target audiences having a specific demographic profile, lifestyle, brand or media consumption or purchasing behavior or audiences located in, or traveling through, a particular geography. Advertisers also compare the relative costs of available media, evaluating the number of impressions (potential viewings), exposure (the opportunity for advertising to be seen) and circulation (traffic volume in a market), as well as potential effectiveness, quality of related services (such as advertising copy design and layout) and customer service. In competing with other media, we believe that outdoor advertising is relatively more cost-efficient than other media, allowing advertisers to reach broader audiences and target specific geographic areas or demographics groups within markets.

We believe that our strong emphasis on sales and customer service and our position as a major provider of advertising services in each of our primary markets enables us to compete effectively with the other outdoor advertising companies, as well as with other media, within those markets.

CUSTOMERS

Our customer base is diverse. The table below sets forth the ten industries from which we derived most of our billboard advertising revenues for the year ended December 31, 2011, as well as the percentage of billboard advertising revenues attributable to the advertisers in those industries. The individual advertisers in these industries accounted for approximately 73% of our billboard advertising net revenues in the year ended December 31, 2011. No individual advertiser accounted for more than 1.0% of our billboard advertising net revenues in that period.

Categories	**Percentage of Net Billboard Advertising Revenues**
Restaurants	13%
Retailers	10%
Health Care	9%
Service	8%
Amusement Entertainment/Sports	7%
Gaming	6%
Automotive	6%
Telecommunications	5%
Financial Banks, Credit Unions	5%
Education	4%
	73%

REGULATION

Outdoor advertising is subject to governmental regulation at the federal, state and local levels. Regulations generally restrict the size, spacing, lighting and other aspects of advertising structures and pose a significant barrier to entry and expansion in many markets.

Federal law, principally the Highway Beautification Act of 1965 (the HBA), regulates outdoor advertising on Federal Aid Primary, Interstate and National Highway Systems roads. The HBA requires states to effectively control outdoor advertising along these roads, and mandates a state compliance program and state standards regarding size, spacing and lighting. The HBA requires any state or political subdivision that compels the removal of a lawful billboard along a Federal Aid Primary or Interstate highway to pay just compensation to the billboard owner.

All states have passed billboard control statutes and regulations at least as restrictive as the federal requirements, including laws requiring the removal of illegal signs at the owner s expense (and without compensation from the state). Although we believe that the number of our billboards that may be subject to removal as illegal is immaterial, and no state in which we operate has banned billboards entirely, from time to time governments have required us to remove signs and billboards legally erected in accordance with

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federal, state and local permit requirements and laws. Municipal and county governments generally also have sign controls as part of their zoning laws and building codes. We contest laws and regulations that we believe unlawfully restrict our constitutional or other legal rights and may adversely impact the growth of our outdoor advertising business.

Using federal funding for transportation enhancement programs, state governments have purchased and removed billboards for beautification, and may do so again in the future. Under the power of eminent domain, state or municipal governments have laid claim to property and forced the removal of billboards. Under a concept called amortization by which a governmental body asserts that a billboard operator has earned compensation by continued operation over time, local governments have attempted to force removal of legal but nonconforming billboards (i.e., billboards that conformed with applicable zoning regulations when built but which do not conform to current zoning regulations). Although the legality of amortization is questionable, it has been upheld in some instances. Often, municipal and county governments also have sign controls as part of their zoning laws, with some local governments prohibiting construction of new billboards or allowing new construction only to replace existing structures. Although we have generally been able to obtain satisfactory compensation for those of our billboards purchased or removed as a result of governmental action, there is no assurance that this will continue to be the case in the future.

We have also introduced and intend to expand the deployment of digital billboards that display static digital advertising copy from various advertisers that change every 6 to 8 seconds. We have encountered some existing regulations that restrict or prohibit these types of digital displays but it has not yet materially impacted our digital deployment. Since digital billboards have only recently been developed and introduced into the market on a large scale, existing regulations that currently do not apply to them by their terms could be revised to impose greater restrictions. These regulations may impose greater restrictions on digital billboards due to alleged concerns over aesthetics or driver safety.

In addition, due to their recent development, relatively few large scale studies have been conducted regarding driver safety issues, if any, related to digital billboards. The U.S. Department of Transportation Federal Highway Administration is currently conducting a study on whether the presence of digital billboards along roadways is associated with a reduction of driver safety for the public. We understand that this study is currently under internal review and the date of its public release is unknown. If the results of this study include adverse findings, it may result in regulations at the federal or state level that impose greater restrictions on digital billboards.

EMPLOYEES

We employed approximately 3,000 people as of December 31, 2011. Approximately 190 employees were engaged in overall management and general administration at our management headquarters in Baton Rouge, Louisiana, and the remainder, including over 760 local account executives, were employed in our operating offices.

Fifteen of our local offices employ billposters and construction personnel who are covered by collective bargaining agreements. We believe that our relationship with our employees, including our 114 unionized employees, is good, and we have never experienced a strike or work stoppage.

INFLATION

In the last three years, inflation has not had a significant impact on us.

SEASONALITY

Our revenues and operating results are subject to seasonality. Typically, we experience our strongest financial performance in the summer and fall, and our weakest financial performance in the first quarter of the calendar year, partly because retailers cut back their advertising spending immediately following the holiday shopping season. We expect this trend to continue in the future. Because a significant portion of our expenses is fixed, a reduction in revenues in any quarter is likely to result in a period-to-period decline in operating performance and net earnings.

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ITEM 1A. ***RISK FACTORS***

The Company s substantial debt may adversely affect its business, financial condition and financial results.

The Company has borrowed substantially in the past and will continue to borrow in the future. At December 31, 2011, Lamar Advertising Company s wholly owned subsidiary, Lamar Media, had approximately $2.16 billion of total debt outstanding, consisting of approximately $595.5 million in bank debt, $331.6 million of senior notes and $1.23 billion in various series of senior subordinated notes. In addition, in February 2012, we issued $500 million in new senior subordinated notes and closed a new $100 million term loan A facility, in order to substantially fund the repurchase of $582.9 million of the 6 5/8% Notes due 2015. Despite the level of debt presently outstanding, the terms of the indentures governing Lamar Media s notes and the terms of the senior credit facility allow Lamar Media to incur substantially more debt, including approximately $240.6 million available for borrowing as of December 31, 2011 under the revolving senior credit facility.

The Company s substantial debt and its use of cash flow from operations to make principal and interest payments on its debt may, among other things:

- make it more difficult for the Company to comply with the financial covenants in its senior credit facility, which could result in a default and an acceleration of all amounts outstanding under the facility;
- limit the cash flow available to fund the Company s working capital, capital expenditures, acquisitions or other general corporate requirements;
- limit the Company s ability to obtain additional financing to fund future working capital, capital expenditures or other general corporate requirements;
- place the Company at a competitive disadvantage relative to those of its competitors that have less debt;
- force the Company to seek and obtain alternate or additional sources of funding, which may be unavailable, or may be on less favorable terms, or may require the Company to obtain the consent of lenders under its senior credit facility or the holders of its other debt;
- limit the Company s flexibility in planning for, or reacting to, changes in its business and industry; and
- increase the Company s vulnerability to general adverse economic and industry conditions.

Any of these problems could adversely affect the Company s business, financial condition and financial results.

Restrictions in the Company s and Lamar Media s debt agreements reduce operating flexibility and contain covenants and restrictions that create the potential for defaults, which could adversely affect the Company s business, financial condition and financial results.

The terms of the indentures relating to Lamar Media s senior credit facility and the indentures relating to Lamar Media s outstanding notes restrict the ability of the Company and Lamar Media to, among other things:

- incur or repay debt;

dispose of assets;

create liens;

make investments;

enter into affiliate transactions; and

pay dividends and make inter-company distributions.

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The terms of Lamar Media s senior credit facility also restrict it from exceeding specified total debt and senior debt ratios and require it to maintain specified fixed charges coverage ratios. Please see *Management s Discussion and Analysis of Financial Condition and Results of Operations Liquidity and Capital Resources* for a description of the specific financial ratio requirements under the senior credit facility.

The Company s ability to comply with the financial covenants in the senior credit facility and indentures (and to comply with similar covenants in future agreements) depends on its operating performance, which in turn depends significantly on prevailing economic, financial and business conditions and other factors that are beyond the Company s control. Therefore, despite its best efforts and execution of its strategic plan, the Company may be unable to comply with these financial covenants in the future.

Although we are currently in compliance with all financial covenants, the Company s operating results have been negatively impacted by current economic conditions and there can be no assurance that the current economic environment will not further impact the Company s results and, in turn, its ability to meet these requirements in the future. If Lamar Media fails to comply with its financial covenants, the lenders under the senior credit facility could accelerate all of the debt outstanding, which would create serious financial problems and could lead to a default under the indentures governing Lamar Media s outstanding notes. Any of these events could adversely affect the Company s business, financial condition and financial results.

In addition, these restrictions reduce the Company s operating flexibility and could prevent the Company from exploiting investment, acquisition, marketing, or other time-sensitive business opportunities.

The Company s revenues are sensitive to general economic conditions and other external events beyond the Company s control.

The Company sells advertising space on outdoor structures to generate revenues. Advertising spending is particularly sensitive to changes in economic conditions and has been adversely affected by the most recent recession, as evidenced by an 11.9% decline in the Company s advertising revenues in the year ended December 31, 2009.

Additionally, the occurrence of any of the following external events could further depress the Company s revenues:

- a widespread reallocation of advertising expenditures to other available media by significant users of the Company s displays; and

- a decline in the amount spent on advertising in general or outdoor advertising in particular.

The Company could suffer losses due to asset impairment charges for goodwill and other intangible assets.

The Company tested goodwill for impairment on December 31, 2011. Based on the Company s review at December 31, 2011, no impairment charge was required. The Company continues to assess whether factors or indicators become apparent that would require an interim impairment test between our annual impairment test dates. For instance, if our market capitalization is below our equity book value for a period of time without recovery, we believe there is a strong presumption that would indicate a triggering event has occurred and it is more likely than not that the fair value of one or both of our reporting units are below their carrying amount. This would require us to test the reporting units for impairment of goodwill. If this presumption cannot be overcome a reporting unit could be impaired under ASC 350 Goodwill and Other Intangible Assets and a non-cash charge would be required. Any such charge could have a material adverse effect on the Company s net earnings.

The Company faces competition from larger and more diversified outdoor advertisers and other forms of advertising that could hurt its performance.

While the Company enjoys a significant market share in many of its small and medium-sized markets, the Company faces competition from other outdoor advertisers and other media in all of its markets. Although the Company is one of the largest companies focusing exclusively on outdoor advertising in a relatively fragmented industry, it competes against larger companies with diversified operations, such as television, radio and other broadcast media. These diversified competitors have the advantage of cross-selling complementary advertising products to advertisers.

The Company also competes against an increasing variety of out-of-home advertising media, such as advertising displays in shopping centers, malls, airports, stadiums, movie theaters and supermarkets, and on taxis, trains and buses. To a lesser extent, the Company also faces competition from other forms of media, including radio, newspapers, direct mail advertising, telephone

directories and the Internet. The industry competes for advertising revenue along the following dimensions: exposure (the number of impressions an advertisement makes), advertising rates (generally measured in cost-per-thousand impressions), ability to target specific demographic groups or geographies, effectiveness, quality of related services (such as advertising copy design and layout) and customer service. The Company may be unable to compete successfully along these dimensions in the future, and the competitive pressures that the Company faces could adversely affect its profitability or financial performance.

Federal, state and local regulation impact the Company s operations, financial condition and financial results.

Outdoor advertising is subject to governmental regulation at the federal, state and local levels. Regulations generally restrict the size, spacing, lighting and other aspects of advertising structures and pose a significant barrier to entry and expansion in many markets.

Federal law, principally the Highway Beautification Act of 1965 (the HBA), regulates outdoor advertising on Federal Aid Primary, Interstate and National Highway Systems roads. The HBA requires states to effectively control outdoor advertising along these roads, and mandates a state compliance program and state standards regarding size, spacing and lighting. The HBA requires any state or political subdivision that compels the removal of a lawful billboard along a Federal Aid Primary or Interstate highway to pay just compensation to the billboard owner.

All states have passed billboard control statutes and regulations at least as restrictive as the federal requirements, including laws requiring the removal of illegal signs at the owner s expense (and without compensation from the state). Although we believe that the number of our billboards that may be subject to removal as illegal is immaterial, and no state in which we operate has banned billboards entirely, from time to time governments have required us to remove signs and billboards legally erected in accordance with federal, state and local permit requirements and laws. Municipal and county governments generally also have sign controls as part of their zoning laws and building codes. We contest laws and regulations that we believe unlawfully restrict our constitutional or other legal rights and may adversely impact the growth of our outdoor advertising business.

Using federal funding for transportation enhancement programs, state governments have purchased and removed billboards for beautification, and may do so again in the future. Under the power of eminent domain, state or municipal governments have laid claim to property and forced the removal of billboards. Under a concept called amortization by which a governmental body asserts that a billboard operator has earned compensation by continued operation over time, local governments have attempted to force removal of legal but nonconforming billboards (i.e., billboards that conformed with applicable zoning regulations when built but which do not conform to current zoning regulations). Although the legality of amortization is questionable, it has been upheld in some instances. Often, municipal and county governments also have sign controls as part of their zoning laws, with some local governments prohibiting construction of new billboards or allowing new construction only to replace existing structures. Although we have generally been able to obtain satisfactory compensation for those of our billboards purchased or removed as a result of governmental action, there is no assurance that this will continue to be the case in the future.

We have also introduced and intend to expand the deployment of digital billboards that display static digital advertising copy from various advertisers that change every 6 to 8 seconds. We have encountered some existing regulations that restrict or prohibit these types of digital displays but it has not yet materially impacted our digital deployment. Since digital billboards have only recently been developed and introduced into the market on a large scale, existing regulations that currently do not apply to them by their terms could be revised to impose greater restrictions. These regulations may impose greater restrictions on digital billboards due to alleged concerns over aesthetics or driver safety.

Rollover Contributions: Any Eligible Employee may transfer to the Plan contributions and such other amounts from an “eligible rollover plan” that meets the requirements of the Code at the time of the transfer (“Rollover Contributions”).

SCHOLASTIC CORPORATION
401(k) SAVINGS AND RETIREMENT PLAN
NOTES TO FINANCIAL STATEMENTS

EMPLOYER CONTRIBUTIONS

Under the Plan, the Company contributes a percentage of each Participant’s Compensation (“Matching Contributions”). The Company’s contributions for the benefit of the Participants are made in cash in an amount equal to a percentage of the Participant’s pre-tax contributions. For the Plan Year ended December 31, 2014, the Company contributed an amount equal to 50% of a Participant’s pre-tax contributions, up to a maximum amount equal to 6% of the Participant’s annual Compensation.

Total Participant Plan contributions, including Matching Contributions, are limited to the lesser of 100% of the Participant’s Compensation, or $52,000. Catch-up contributions are not eligible for Company Matching Contributions.

On May 29, 2015, the Company announced it had completed the sale of its Education Technology business segment. Participants affected by this sale may not make contributions to the Plan after that date and the Company will not make any future contributions to the Plan on their behalf. An amendment was made to the Plan in 2015 to accelerate the vesting for the Participants affected by the sale.

VESTING

Participants are immediately vested in their Compensation Contributions and Rollover Contributions. Matching Contributions vest at the rate of 20% per year of service by a Participant. A Participant becomes 100% vested in all Matching Contributions after either five years of credited service, or upon death or disability while employed, or upon reaching age 65.

FORFEITURES

Upon termination of employment, Participants forfeit their unvested matching contributions balance. Forfeitures by Participants of unvested matching contributions (“Forfeitures”) were used to refund certain previously forfeited amounts that were reinstated during the Plan Year, to offset Matching Contributions for other Participants, and to pay for Plan expenses. For the Plan Year ended December 31, 2014, Matching Contributions were reduced by $833,100 from Forfeitures. Plan level expenses for recordkeeping and investment advisory services of approximately $122,000 for the Plan Year 2014, were paid from Forfeitures. At December 31, 2014, and December 31, 2013, there were Forfeitures of approximately $22,200 and $15,836, respectively, available to reduce future Matching Contributions and pay Plan expenses.

PARTICIPANT ACCOUNT DISTRIBUTIONS

A Participant’s account under the Plan may be distributed in full upon cessation of employment for any reason, including termination, death, disability or retirement at the Participant’s election. On a daily basis, a Participant, for any reason, may withdraw all or a portion of his or her after-tax contributions. All distributions from the Plan are in cash or, if elected by the Participant, in whole shares of Company Stock, to the extent that the Participant is invested in Company Stock. In the event of attainment of age 59-1/2, a Participant may withdraw his or her entire vested balance during employment. At December 31, 2014 and 2013, all withdrawals requested by Participants had been paid.

In the event of a hardship, a Participant may withdraw during employment such portion of his or her account to meet such hardship. In addition, once each Plan Year, Participants may request a loan from the Plan of up to 50% of the vested value of their account not to exceed $50,000. In no event may a Participant have more than one loan outstanding for the purchase of a principal residence or more than two outstanding loans at any time. All loans must be repaid in equal installments of principal and interest through automatic payroll deductions over a period not to exceed five years, except for certain loans made to purchase a Participant's principal residence, which may be repaid over a period of up to ten years pursuant to the Code. Upon termination, outstanding loan balances that are not repaid by the Participant are treated as a taxable distribution to the Participant.

PLAN EXPENSES

Expenses are incurred at either the fund level or the Plan level. All expenses incurred by the funds (commissions, management fees, etc.) are paid out of investor assets and are, therefore, netted in realized and unrealized appreciation in fair value of investments in the statements of changes in net assets available for benefits. Plan level expenses for recordkeeping and investment advisory services were approximately $155,000 for the Plan Year ended December 31, 2014. Participants paid other Plan level expenses of approximately $252,000.

SCHOLASTIC CORPORATION
401(k) SAVINGS AND RETIREMENT PLAN
NOTES TO FINANCIAL STATEMENTS

COMPANY STOCK FUND

The Plan offers Company Stock as an investment choice in the Plan. Dividends are paid and then reinvested in Company Stock.
Each Participant is entitled to exercise voting rights attributable to the shares allocated to his or her account and is notified by the Company prior to the time that such rights may be exercised. The Trustee is not permitted to vote any allocated shares for which instructions have not been given by a Participant.

The Trustee votes any unallocated shares in the same proportion as those shares that were allocated, unless the Committee directs the Trustee otherwise. Participants have the same voting rights in the event of a tender or exchange offer.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

BASIS OF PRESENTATION

The financial statements of the Plan are prepared in conformity with U.S. generally accepted accounting principles (“U.S. GAAP”). Purchases and sales of investment securities are recorded at fair value on the trade date.

RECLASSIFICATIONS

The current presentation includes a reclassification of certain investments in statements of net assets available for benefits.

USE OF ESTIMATES

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates that affect the amounts reported in the financial statements and accompanying notes and supplemental schedule. Actual results could differ from those estimates.
PAYMENT OF BENEFITS

Benefits are recorded when paid.

NEW ACCOUNTING PRONOUNCEMENTS

In May 2015, the Financial Accounting Standards Board issued Accounting Standards Update ("ASU") 2015-07, Disclosures for Investments in Certain Entities that Calculate Net Asset Value Per Share (or its Equivalent) to Accounting Standards Codification 820, Fair Value Measurement. ASU 2015-07 removes the requirement to categorize within the fair value hierarchy investments for which fair values are estimated using the net asset value practical expedient provided by Fair Value Measurement. Disclosures about investments in certain entities that calculate net asset value per share are limited under ASU 2015-07 to those investments for which the entity has elected to estimate the fair value using the net asset value practical expedient.

The amendments in ASU 2015-07 are effective for public business entities for fiscal years beginning after December 15, 2015, and interim periods within those fiscal years with retrospective application to all periods presented. Earlier application is permitted. Plan management is evaluating the impact of this update on the Plan’s financial statements.

VALUATION OF INVESTMENTS

Mutual funds held by the Plan are valued at the quoted net asset value of shares held. Collective investment trust funds held by the Plan are valued at the net asset value of shares held. The investment contracts held as part of the Fidelity Managed Income Portfolio II fund, a pooled stable value fund (the "Stable value fund") are recorded at fair value (see Note 3); however, since these contracts are fully benefit-responsive, an adjustment is reflected in the Statements of net assets available for benefits to show these investments at contract value. The contract value is the relevant measurement attributable to fully benefit-responsive investment contracts because it is the amount Participants would receive if they were to initiate permitted transactions under the terms of the Plan.

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SCHOLASTIC CORPORATION
401(k) SAVINGS AND RETIREMENT PLAN
NOTES TO FINANCIAL STATEMENTS

The contract value represents contributions plus earnings, less Participant withdrawals and administrative expenses. Investments in Company Stock and the money market fund are recorded at fair value, using the closing price as quoted on the NASDAQ Stock Market on the valuation date. Purchases and sales of investments are reflected on a trade-date basis. Dividend income is reported on the ex-dividend date while interest income is recorded as earned on an accrual basis. Net appreciation includes the Plan's gains and losses on investments bought and sold as well as held during the year.

The methods described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the Plan believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

NOTES RECEIVABLE FROM PARTICIPANTS

Notes receivable from Participants represent Participant loans that are recorded at their unpaid principal balance. Interest income on notes receivable from Participants is recorded when it is earned. Related fees are paid by Participants. No allowance for credit losses has been recorded as of December 31, 2014 or 2013. If a Participant ceases to make loan repayments and the Plan administrator deems the Participant loan to be a distribution, the Participant loan balance is reduced to zero and a benefit payment is recorded.

3. INVESTMENTS

Mutual funds and Collective investment trust funds, held by the Plan, are valued at the quoted net asset value of shares held. The investment contracts held as part of the Stable value fund are recorded at fair value; however, since these contracts are fully benefit-responsive, an adjustment is reflected in the statements of net assets available for benefits to present these investments at contract value. Investments in Company Stock and the money market fund are recorded at fair value. The carrying value approximates the fair value for all investments other than the Stable value fund.
The Stable value fund is contractually obligated to repay the principal and a specified interest rate that is guaranteed to the Plan. Participants may ordinarily direct the withdrawal or transfer of all or a portion of their investment at contract value. Certain events may limit the ability of the Plan to transact at contract value with the issuer. The Stable value fund includes restrictions on liquidating the fund under certain circumstances, in which event it could take up to twelve months to liquidate the Plan’s holdings in that fund. The Plan administrator does not believe that the Plan’s Participants would be subject to any event that would limit the Plan’s ability to transact at contract value.
The average yield of the Stable value fund based on actual earnings was approximately 1.15% and 1.07% at December 31, 2014 and 2013, respectively, and the average yield based on the interest rate credited to Participants was approximately 1.38% and 1.14% at December 31, 2014 and 2013, respectively.

SCHOLASTIC CORPORATION
401(k) SAVINGS AND RETIREMENT PLAN
NOTES TO FINANCIAL STATEMENTS

The following individual investments represent 5% or more of the net assets available for benefits (in thousands)

	December 31,	
	2014	2013
AF Washington Mutual Investors Fund R4 (1)	$—	$18,479
AF Washington Mutual Investors Fund R6 (2)	20,667	—
Artisan Mid Capital Fund (1)	—	21,573
Artisan Mid Capital Institutional (2)	21,533	—
Fidelity Freedom Fund 2020 (1)	—	23,515
Fidelity Freedom Fund 2025 (1)	—	26,130
Fidelity Freedom Fund 2030 (1)	—	22,799
Fidelity Freedom Fund 2035 (1)	—	21,456
Fidelity Freedom Fund 2040 (1)	—	20,400
Vanguard Target Retirement Trust II 2020 (2)	24,565	—
Vanguard Target Retirement Trust II 2025 (2)	28,862	—
Vanguard Target Retirement Trust II 2030 (2)	27,037	—
Vanguard Target Retirement Trust II 2035 (2)	23,806	—
Vanguard Target Retirement Trust II 2040 (2)	22,452	—
Fidelity Managed Income Portfolio Fund II (3)	28,609	29,900
T. Rowe Price Blue Chip Growth (1)	—	21,458
T. Rowe Price Institutional Large Capital Core Growth (2)	23,194	—
Vanguard Institutional Index Fund	58,800	53,886

(1) Fund was deleted as an investment choice in Plan Year 2014.
(2) Fund was added as an investment choice in Plan Year 2014.
(3) The contract value of the Stable value fund
was $28,197 and $29,479 as of December 31, 2014 and 2013, respectively.

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SCHOLASTIC CORPORATION
401(k) SAVINGS AND RETIREMENT PLAN
NOTES TO FINANCIAL STATEMENTS

During 2014, the Plan’s total net realized and unrealized appreciation (depreciation) in the fair value of investments was as follows (in thousands):

Fund Name	Realized	Unrealized	Total
American Funds Washington Mutual Investors Fund R4	$186	$0	$186
American Funds Washington Mutual Investors Fund R6	39	469	508
American Beacon Small Capital Value Investor	51	0	51
American Beacon Small Capital Value Institutional	4	(526)	(522)
Artisan Mid Capital Investor	(70)	0	(70)
Artisan Mid Capital Institutional	(11)	(734)	(745)
Fidelity Freedom Income Fund	24	0	24
Fidelity Freedom Fund 2005	17	0	17
Fidelity Freedom Fund 2010	55	0	55
Fidelity Freedom Fund 2015	128	0	128
Fidelity Freedom Fund 2020	238	0	238
Fidelity Freedom Fund 2025	252	0	252
Fidelity Freedom Fund 2030	174	0	174
Fidelity Freedom Fund 2035	145	0	145
Fidelity Freedom Fund 2040	131	0	131
Fidelity Freedom Fund 2045	59	0	59
Fidelity Freedom Fund 2050	53	0	53
Fidelity Freedom Fund 2055	6	0	6
Vanguard Target Retirement Income	16	154	170
Vanguard Target Retirement Trust II 2010	14	197	211
Vanguard Target Retirement Trust II 2015	57	515	572
Vanguard Target Retirement Trust II 2020	69	1,172	1,241
Vanguard Target Retirement Trust II 2025	65	1,395	1,460
Vanguard Target Retirement Trust II 2030	59	1,324	1,383
Vanguard Target Retirement Trust II 2035	60	1,174	1,234
Vanguard Target Retirement Trust II 2040	62	1,125	1,187
Vanguard Target Retirement Trust II 2045	39	435	474
Vanguard Target Retirement Trust II 2050	45	350	395
Vanguard Target Retirement Trust II 2055	6	47	53
Scholastic Corporation Common Stock	9	627	636
T. Rowe Price Institutional Large Capital Core Growth	95	2,092	2,187
T. Rowe Price Institutional Large Capital Core Growth	(552)	0	(552)
Vanguard Institutional Index Fund	251	5,755	6,006
Vanguard Total Bond Market Index Fund	53	338	391
Vanguard Total International Stock Index Fund (Institutional)	(23)	(1,208)	(1,231)
Vanguard Small-Cap Growth Index Fund (Institutional)	7	301	308
Total	$1,813	$15,002	$16,815

4. FAIR VALUE MEASUREMENTS

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability (an exit price) in an orderly transaction between market participants at the measurement date. U.S. GAAP establishes a fair value hierarchy that requires an entity to maximize the use of observable inputs when measuring fair value. 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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SCHOLASTIC CORPORATION
401(k) SAVINGS AND RETIREMENT PLAN
NOTES TO FINANCIAL STATEMENTS

- 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 following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used as of December 31, 2014 and 2013.

- Mutual funds: Valued at the net asset value of shares held by the Plan at year end, as quoted on the open market.
- Collective investment trust funds: Valued at the net asset value of units held by the Plan at year end, which is based on the value of the underlying index funds.
- Stable value fund: Valued at the net asset value of shares held by the Plan at year end, which is based on the value of the underlying investments.
- Common stock: Valued at the closing price reported on the active market on which the individual security is traded.
- Money market fund: Valued at the closing price.

The tables below sets forth by level, within the fair value hierarchy, the Plan investments carried at fair value as of the dates indicated:

	Assets at Fair Value as of December 31, 2014 (in thousands)			
	Level 1	Level 2	Level 3	Total
Mutual funds:				
Mid/Large cap stock funds	$124,194	$—	$—	$124,194
Small cap stock funds	17,227	—	—	17,227
International fund	15,849	—	—	15,849
Fixed income funds	14,331	—	—	14,331
Collective investment trust funds(1)	—	165,172	—	165,172
Pooled stable value fund	—	28,609	—	28,609
Scholastic Corporation common stock	9,342	—	—	9,342
Money market fund	27	—	—	27
Total	$180,970	$193,781	$—	$374,751

	Assets at Fair Value as of December 31, 2013 (in thousands)			
	Level 1	Level 2	Level 3	Total
Mutual funds:				
Mid/Large cap stock funds	$262,552	$—	$—	$262,552
Small cap stock funds	16,202	—	—	16,202

International fund	16,944	—	—	16,944
Fixed income funds	16,275	—	—	16,275
Collective investment trust funds[1]	—	—	—	—
Pooled stable value fund	—	29,900	—	29,900
Scholastic Corporation common stock	9,199	—	—	9,199
Money market fund	—	—	—	—
Total	$321,172	$29,900	$—	351,072

[1] The funds were added as investment choices in 2014.

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SCHOLASTIC CORPORATION
401(k) SAVINGS AND RETIREMENT PLAN
NOTES TO FINANCIAL STATEMENTS

A Collective investment trust fund is an investment vehicle similar to a mutual fund but is available only to qualified retirement plans, such as 401(k) plans. Collective investment trust funds are a series of life-cycle trusts that use a targeted maturity approach as a simplified way to meet investors' different objectives, time horizons, and changing risk tolerances. These Collective investment trust funds include eleven target-year trusts ranging from 2010 to 2060, in 5 year increments. The trusts invest in index funds using a balanced asset allocation strategy designed for Participants planning to retire within a few years of the target year. Collective investment trust funds seek to provide growth of capital and current income consistent with current target allocations and will become more conservative over time. The trusts' indirect bond holdings are a diversified mix of short, intermediate, and long-term U.S. government, U.S. agency, and investment-grade U.S. corporate bonds. The combination of funds produces a portfolio that is diversified by asset class and holdings. The underlying investments of the Collective investment trust funds consist primarily of Level 2 inputs either directly or indirectly observable for substantially the full term of the asset through corroboration with observable market data. The Plan's investment in the Collective investment trust funds are not subject to any withdrawal or redemption restrictions.

5. TAX STATUS

The Plan received a favorable determination letter from the Internal Revenue Service dated October 29, 2014, covering all of the amendments executed through January 3, 2014 and stating that the Plan is qualified under Section 401(a) of the Code. Therefore, the related trust is exempt from taxation. Subsequent to this determination, the Plan was further amended. The Plan, as amended, is required to operate in conformity with the Code in order to maintain its qualification. The Plan administrator believes that the Plan is being operated, in all material respects, in accordance with the applicable requirements of the Code and, therefore, believes that the Plan, as amended, is qualified and the related trust is tax exempt. The Plan administrator has indicated that it will take the necessary steps, if any, to bring the Plan's operations into compliance with the Code.

The Plan administrator evaluates uncertain tax positions taken by the Plan, and the financial statement effects of a tax position are recognized when the position is more likely than not, based on the technical merits, to be sustained upon examination by the IRS. The Plan administrator has analyzed the tax positions taken by the Plan, and has concluded that, as of December 31, 2014, there are no uncertain positions taken or expected to be taken. The Plan has recognized no interest or penalties related to uncertain tax positions. The Plan is subject to routine audits by taxing jurisdictions. The Plan administrator believes it is no longer subject to income tax examinations for years prior to 2013.

6. PLAN TERMINATION

While the Plan is intended to be permanent, it may be terminated at any time by a resolution of the Board of Directors, subject to the provisions of ERISA. Upon termination of the Plan, all necessary provisions of the Plan shall remain in effect, no further contributions may be made to the Plan and the account of each Participant shall become fully vested and non-forfeitable and shall be distributed to the Participants.

7. RISK AND UNCERTAINTIES

The Plan invests in various investment securities. Investment securities are exposed to various risks, such as interest rate, market and credit risks. As a result, changes in the value of investment securities could materially affect the amounts reported in the Statements of net assets available for benefits.

SCHOLASTIC CORPORATION
401(k) SAVINGS AND RETIREMENT PLAN
NOTES TO FINANCIAL STATEMENTS

8. RECONCILIATION TO FORM 5500

The following is a reconciliation of net assets available for benefits per the financial statements to the Form 5500 as of December 31, 2014 and 2013 (in thousands):

	December 31, 2014	2013
Net assets available for benefits per the financial statements	$382,218	$358,214
Adjustment from contract value to fair value for fully benefit-responsive investment contracts	412	421
Other, net	51	(85)
Net assets available for benefits per Form 5500	$382,681	$358,550

9. RELATED PARTY TRANSACTIONS

Certain Plan investments are managed by the Trustee and are considered related parties as well as parties-in-interest. All investment transactions with such parties-in-interest qualify as party-in-interest transactions and are exempt from the prohibited transactions rules. Fees incurred by the Plan for the investment management services, including administrative services, were approximately $357,000 for the Plan Year ended December 31, 2014. Plan level expenses for recordkeeping and investment advisory services paid from Forfeitures were approximately $122,000 for the Plan Year ended December 31, 2014.

At December 31, 2014 and 2013, the Plan had $9,341,683, or 2.5%, and $9,199,094, or 2.6%, respectively, of its total net assets invested in Company Stock.

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Supplemental Schedule

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SCHOLASTIC CORPORATION 401(k) SAVINGS AND RETIREMENT PLAN
EIN #13-3385513 Plan #004
SCHEDULE H, Line 4i - SCHEDULE OF ASSETS (HELD AT END OF YEAR)
December 31, 2014
(Amounts in thousands)

Identity of Issuer, Borrower, Lessor or Similar Party	Description of Investment Including Maturity Date, Rate of Interest, Par or Maturity Value	Number of Shares	Cost	Current Value
American Beacon	American Beacon Small Capital Value Institutional	249.9	**	$6,265
American Funds	American Funds Washington Mutual Investors Fund R6	504.6	**	20,667
Artisan	Artisan Mid Capital Institutional	449.4	**	21,533
Vanguard	Vanguard Target Retirement Income	140.8	**	4,191
Vanguard	Vanguard Target Retirement Trust II 2010	180.3	**	4,959
Vanguard	Vanguard Target Retirement Trust II 2015	420.7	**	11,565
Vanguard	Vanguard Target Retirement Trust II 2020	906.5	**	24,565
Vanguard	Vanguard Target Retirement Trust II 2025	1,086.3	**	28,862
Vanguard	Vanguard Target Retirement Trust II 2030	1,040.7	**	27,037
Vanguard	Vanguard Target Retirement Trust II 2035	916.3	**	23,806
Vanguard	Vanguard Target Retirement Trust II 2040	848.9	**	22,452
Vanguard	Vanguard Target Retirement Trust II 2045	338.1	**	8,937
Vanguard	Vanguard Target Retirement Trust II 2050	276.7	**	7,349
Vanguard	Vanguard Target Retirement Trust II 2055	34.4	**	1,223
Vanguard	Vanguard Target Retirement Trust II 2060	8.0	**	226
Fidelity*	Fidelity Management Income Portfolio Fund II	28,196.9	**	28,609
T. Rowe Price	T. Rowe Price Institutional Large Capital Core Growth	933.0	**	23,194
Vanguard	Total Bond Market Index Fund (Institutional)	1,318.4	**	14,331
Vanguard	Vanguard Institutional Index Fund	311.7	**	58,800
Vanguard	Vanguard Small-Cap Growth Index Fund (Institutional)	309.2	**	10,962
Vanguard	Vanguard Total International Stock Index Fund (Institutional)	152.4	**	15,849

Scholastic Corporation*	Company Stock	256.5	**	9,342
Participant loans*	Prime + 0.5% Interest Rate; Repayment Terms: one to ten years	n/a	n/a	7,930
Fidelity*	Fidelity Cash Reserve	26.8	**	$27
Total investments				382,681

* Indicates party-in-interest to the Plan
** Not required as the investment is Participant-directed

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SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the Administrative Committee of Scholastic Corporation, the Plan administrator of the Scholastic Corporation 401(k) Savings and Retirement Plan, has duly caused this annual report to be signed on its behalf by the undersigned hereunto duly authorized.

SCHOLASTIC CORPORATION 401(k)
SAVINGS
AND RETIREMENT PLAN

Date: June 26, 2015

/s/ Gil A. Dickoff

Senior Vice President and Treasurer

Exhibits/Index

Exhibit No.	Document
23.1	Consent of Independent Registered Public Accounting Firm

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