

Risk Factors Comparison 2023-07-21 to 2022-07-22 Form: 10-K

Legend: **New Text** ~~Removed Text~~ Unchanged Text **Moved Text Section**

Set forth below and elsewhere in this Annual Report on Form 10-K and in other documents that the Corporation files with the SEC are risks that should be considered in evaluating the Corporation's common stock, as well as risks and uncertainties that could cause the actual future results of the Company to differ from those expressed or implied in the forward-looking statements contained in this Report and in other public statements the Company makes. Additionally, because of the following risks and uncertainties, as well as other variables which may affect the Company's operating results in the conduct of its business, the Company's past financial performance should not be considered an indicator of future performance. It is further noted that the Company's operating results for the fiscal **year ended May 31, 2021, and to a lesser extent the fiscal** years ended May 31, ~~2020 and 2021, and fiscal 2022~~ **and 2023 to a lesser extent**, also reflect the direct effects of the COVID-19 pandemic on the businesses of the Company during those fiscal years.

Risks Related to Our Business and Operations If we fail to maintain strong relationships with our authors, illustrators and other creative talent, as well as to develop relationships with new creative talent, our business could be adversely affected. The Company's business, in particular the trade publishing and media portions of the business, is highly dependent on maintaining strong relationships with the authors, illustrators and other creative talent who produce the products and services that are sold to its customers. Any overall weakening of these relationships, or the failure to develop successful new relationships, could have an adverse impact on the Company's business and financial performance. If we fail to adapt to new purchasing patterns or trends, our business and financial results could be adversely affected. The Company's business is affected significantly by changes in customer purchasing patterns or trends in, as well as the underlying strength of, the trade, educational and media markets for children. In particular, the Company's educational publishing business may be adversely affected by budgetary restraints and other changes in educational funding as a result of new policies which could be implemented at the federal level or otherwise resulting from new legislation or regulatory action at the federal, state or local level, or by changes in the procurement process, to which the Company may be unable to adapt successfully. In addition, there are many competing demands for educational funds, and there can be no guarantee that the Company will be successful in continuing to obtain sales of its educational programs and materials from any available funding. Further, changes in educational practices affecting structure or content of educational materials or requiring adaption to new learning approaches, particularly in grades pre-K through 6, as well as **as** those which may arise from new legislation or policies at the state or local level ~~and be directed at content or teaching methodologies~~ **practices and materials**, to which the Company is unable to successfully adapt could result in a loss of business ~~resulting in an adverse~~ **adversely affecting effect on** the Company's business and financial performance. In addition, in a highly politicized environment, the content of some of the product being sold by the Company could become controversial, negatively impacting sales made to ~~or schools~~, through partnerships with government agencies or through sponsorships and funding programs. **Within the children's book publishing business, the Company's financial performance could be adversely affected by the adaptability of its U. S. book clubs channel. The Company has taken a new holistic approach to serving its customers as part of the newly formed school reading events division and the Company's ability to execute on new customer-centric strategies and operational improvements may not align with customer purchasing behaviors which could negatively impact operating results.**

Increases in certain operating costs and expenses, which are beyond our control and can significantly affect our profitability, could adversely affect our operating performance. The Company's major expense categories include employee compensation, printing, paper and distribution (such as postage, shipping and fuel) costs. Compensation costs are influenced by general economic factors, including those affecting costs of health insurance, postretirement benefits and any trends specific to the employee skill sets that the Company requires. Current shortages for warehouse labor, driver labor and other required skills, as well as labor supply chain issues, such as **the impact of** union strikes, may cause the Company's costs to increase beyond increases ~~currently~~ **normally** expected. Paper prices fluctuate based on worldwide demand and supply for paper in general, as well as for the specific types of paper used by the Company. The Company is also subject to inflationary pressures on printing, paper, transportation and labor costs. While the Company has taken steps to manage and budget for certain expected operating cost increases, if there is a significant disruption in the supply of paper or a significant increase in paper costs, or in its shipping or fuel costs, beyond those currently anticipated, which would generally be beyond the control of the Company, or if the Company's strategies to try to manage these costs, including additional cost savings initiatives, are ineffective, the Company's results of operations could be adversely affected. In addition, supplier bankruptcy may cause price increases for the Company. We maintain an experienced and dedicated employee base that executes the Company's strategies. Failure to attract, retain and develop this employee base could result in difficulty with executing our strategy. The Company's employees, notably its senior executives and editorial staff members, have substantial experience in the publishing and education markets. In addition, the Company continues in the process of implementing a strategic information technology transformation process, requiring diverse levels of relevant expertise and experience. If the Company were unable to continue to adequately maintain and develop a workforce of this nature meeting the foregoing needs, including the development of new skills in the context of a rapidly changing business environment created by technology, involving new business processes and increased access to data and data analytics, it could negatively impact the Company's operations and growth prospects. Additionally, high industry-wide demand for truck drivers may impact the Company's ability to hire and retain adequate staffing levels to deliver book fairs in the number anticipated. Failure of third party providers to provide contracted outsourcing of business processes and information technology services could cause business interruptions and could increase the costs of these services to the Company. The

Company outsources business processes to reduce complexity and increase efficiency for activities such as distribution, manufacturing, product development, transactional processing, information technologies and various administrative functions. Increasingly, the Company is engaging third parties to provide SaaS, which can reduce the Company's internal execution risk, but increases the Company's dependency upon third parties to execute business critical information technology tasks. If SaaS providers are unable to provide these services or if-~~outsource~~ providers fail to execute their contracted functionality, or if such providers experience a substantial data breach, the Company could experience **damage to its reputation and** disruptions to its distribution and other business activities and may incur higher costs. Risks Related to Competition If we cannot anticipate technology trends and develop new products or adapt to new technologies responding to changing customer preferences, this could adversely affect our revenues or profitability. The Company operates in highly competitive markets that are subject to rapid change, including, in particular, changes in customer preferences and changes and advances in relevant technologies. There are substantial uncertainties associated with the Company's efforts to develop successful trade publishing, educational, and media products and services, including digital products and services, for its customers, as well as to adapt its print and other materials to new digital technologies, **including such as** the internet cloud technologies, tablets, mobile and other devices and school- based technologies **and uncertainties involving the use of artificial intelligence in connection with the foregoing**. The Company makes significant investments in new products and services that may not be profitable, or whose profitability may be significantly lower than the Company anticipates or has experienced historically. In particular, in the context of the Company's current focus on key digital opportunities, the markets are continuing to develop and the Company may be unsuccessful in establishing itself as a significant factor in any relevant market segment which does develop. Many aspects of markets which could develop for children and schools, such as the nature of the relevant software and devices or hardware, the size of the market, relevant methods of delivery and relevant content, as well as pricing models, are still evolving and will, most likely, be subject to change on a recurring basis until a pattern develops and becomes more defined. **This could specifically impact the Company's ability to execute on a digital and print literacy solution, which requires a multi- year investment, through internal development, third party providers and / or acquisitions.** In addition, the Company faces market risks associated with systems development and service delivery in its evolving school ordering and ecommerce businesses, as well as in responding to changes in how schools plan to utilize technology for virtual or remote learning and the ~~associated~~ **potential** impact on the demand for printed materials in schools. Our financial results would suffer if we fail to successfully differentiate our offerings and meet market needs in school- based book fairs and book clubs, two of our core businesses. The Company's school- based book fairs and book clubs businesses, **which have now been combined to form the Company's reading events business,** produce a substantial amount of the Company's revenues. The Company is subject to the risks that it will not successfully continue to develop and execute new promotional strategies for ~~its the~~ school- based book fairs ~~or and~~ book clubs **components of the reading events business** in response to future customer trends or technological changes or that it will not otherwise meet market needs in ~~these~~ **this newly combined businesses** ~~business~~ in a timely or cost-effective fashion. The book clubs ~~business~~ **component** also relies on attracting and retaining new sponsor- teachers to promote and support the distribution of its offerings. If the Company cannot attract new millennial and younger teachers and meet the changing preferences and demands of these teachers, its revenues and cash flows could be negatively impacted. The Company has differentiated itself from competitors by providing curated offerings in ~~both of the~~ ~~its school- based~~ book clubs and book fairs **components of the reading events business** designed to make reading attractive for children, in furtherance of its mission as a champion of literacy. Competition from mass market and on- line distributors using customer- specific curation tools could reduce this differentiation, posing a risk to the Company's results. The competitive pressures we face in our businesses could adversely affect our financial performance and growth prospects. The Company is subject to significant competition, including from other trade and educational publishers and media, entertainment and internet companies, as well as retail and internet distributors, many of which are substantially larger than the Company and have much greater resources. To the extent the Company cannot meet challenges from existing or new competitors and develop new product offerings to meet customer preferences or needs, the Company's revenues and profitability could be adversely affected. In its educational publishing business, the Company ~~has invested~~ **invests** in ~~various~~ a core curriculum **solutions, including both digital and print products,** covering grades pre- K through 6 **which can be** in direct competition with traditional basal textbook ~~publishers~~ **offerings, as well as new digital instruction offerings with associated assessment tools,** to meet the perceived needs of the modern curriculum. There can be no assurance that the Company will be successful in having school districts adopt the ~~Company's~~ new ~~core~~ **literacy** program **solutions** in preference to basal textbooks or **new digital instruction products offered by others or** be successful in state adoptions, nor ~~that,~~ **in the case of** basal textbook **publishers, that such** publishers will not successfully adapt their business models to the development of new forms of core curriculum, which could have an adverse effect on the return on the Company's investments in this area, as well as on its financial performance and growth prospects. Traditional basal ~~textbook~~ ~~text book~~ publishers **also** generally maintain larger sales forces than the Company, and sell across several academic disciplines, allowing them a larger presence than the Company, ~~which only carries core and supplemental literacy solutions~~. Additionally, demand for many of the Company's product offerings, particularly books sold through school channels, is subject to price sensitivity. Failure to maintain a competitive pricing model could reduce revenues and profitability. Changes in the mix of our major customers in our trade distribution channel or in their purchasing patterns may affect the profitability of our trade publishing business. The Company's distribution channels include online retailers and ecommerce sites, digital delivery platforms and expanding social media and other marketing platforms. An increased concentration of retailer power has also resulted in the increased importance of mass merchandisers as well as of publishing best sellers to meet consumer demand. Currently, the Company's top five trade customers make up approximately ~~78~~ **77** % of the Company's U. S. trade business and ~~16~~ **14** % of the Company's total revenues. Adverse changes in the mix of the major customers of the trade business, including the type of customer, which may also be engaged in a competitive business, or in their

purchasing patterns or financial condition or the nature of their distribution arrangements with the trade business **including any requirements related to ESG with which the Company must comply, more specifically those related to environmental sustainability**, could negatively affect the profitability of the Company's trade business and the Company's financial performance. The inability to obtain and publish best-selling new titles could cause our future results to decline in comparison to historical results. The Company invests in authors and illustrators for its trade publication business, and has a history of publishing hit titles. The inability to publish best-selling new titles in future years could negatively impact the Company. In addition, competition among electronic and print book retailers, including the decrease in the number of independent booksellers, could decrease prices for new title releases, as well as the number of outlets for book sales. The growing use of self-publishing technologies by authors also increases competition and could result in the decreased use of traditional publishing services. The effects of any of the foregoing factors could have an adverse impact on the Company's business, financial condition or results of operation. Risks Related to Information Technology and Systems Privacy breaches and other cyber security risks related to our business could negatively affect our reputation, credibility and business. In certain of its businesses the Company holds or has access to personal data, including that of customers or received from schools. Adverse publicity stemming from a data breach, whether or not valid, could reduce demand for the Company's products or adversely affect its relationship with teachers or educators, impacting participation in **the** book fairs or book clubs **components of the Company's reading events business** or decisions to purchase educational materials or programs produced by the Company's Education Solutions segment. Further, a failure to adequately protect personal data, including that of customers or children, or other data security failure, such as cyber-attacks from third parties, could lead to penalties, significant remediation costs and reputational damage, including loss of future business. Failure of one or more of our information technology platforms could affect our ability to execute our operating strategy. The Company relies on a variety of information technology platforms to execute its operations, including human resources, payroll, finance, order-to-cash, procurement, vendor payment, inventory management, distribution and content management systems as well as its internal operating systems. Many of these systems are integrated via internally developed interfaces and modifications. Failure of one or more systems could lead to operating inefficiencies or disruptions and a resulting decline in revenue or profitability. As the Company continues the implementation of its new enterprise-wide customer and content management systems and the migration to software as a service ("SaaS") and cloud-based technology solutions, in its initiatives to integrate its separate legacy platforms into a cohesive enterprise-wide system, there can be no assurance that it will be successful in its efforts or that the implementation of the remaining stages of these initiatives in the Company's global operations will not involve disruptions in its systems or processes having a short term adverse impact on its operations and ability to service its customers. Risks Related to Laws and Regulations Our reputation is one of our most important assets, and any adverse publicity or adverse events, such as a violation of privacy laws or regulations, could cause significant reputational damage and financial loss. The businesses of the Company focus on children's reading, learning and education, and its key relationships are with educators, teachers, parents and children. In particular, the Company believes that, in selecting its products, teachers, educators and parents rely on the Company's reputation for quality books and educational materials and programs appropriate for children. Negative publicity, either through traditional media or through social media, could tarnish this relationship. The Company is subject to privacy laws and regulations in the conduct of its business in the United States and in other jurisdictions in which it conducts its international operations, many of which vary significantly, relating to the collection and use of personal information, including the European Union General Data Protection Regulation, which became enforceable on May 25, 2018, and the California Consumer Privacy Act, which became effective in January 2020. In addition, the Company is also subject to the regulatory requirements of the Children's Online Privacy Protection Act ("COPPA") in the United States relating to access to, and the use of information received from, children in respect to the Company's on-line offerings. Since the businesses of the Company are primarily centered on children, failures of the Company to comply with the requirements of COPPA and similar laws in particular, as well as failures to comply generally with applicable privacy laws and regulations, as referred to above, could lead to significant reputational damage and other penalties and costs, including loss of future business. Failure to meet the demands of regulators, and the associated high cost of compliance with regulations, as well as failure to enforce compliance with our Code of Ethics and other policies, could negatively impact us. The Company operates in multiple countries and is subject to different regulations throughout the world. In the United States, the Company is regulated by the Internal Revenue Service, the Securities and Exchange Commission, the Federal Trade Commission and other regulating bodies. Failure to comply with these regulators, including providing these regulators with accurate financial and statistical information that often is subject to estimates and assumptions, or the high cost of complying with relevant regulations, including a significant increase in new regulations resulting from changes in the regulatory environment, could negatively impact the Company. **The Company is also subject to the risk that it is unable to comply with the unstandardized, rapidly-changing environmental requirements imposed internationally by local governments, including those related to measuring and reporting on the impact its business has on the environment, which could negatively impact the Company's ability to conduct business in the related country if not met**. In addition, the decentralized and global nature of the Company's operations makes it more difficult to communicate and monitor compliance with the Company's Code of Ethics and other material Company policies and to assure compliance with applicable laws and regulations, some of which have global applicability, such as the Foreign Corrupt Practices Act in the United States and the UK Bribery Act in the United Kingdom. Failures to comply with the Company's Code of Ethics and violations of such laws or regulations, including through employee misconduct, could result in significant liabilities for the Company, including criminal liability, fines and civil litigation risk, and result in damage to the reputation of the Company. Risks Related to Our Intellectual Property The loss of or failure to obtain rights to intellectual property material to our businesses would adversely affect our financial results. The Company's products generally comprise intellectual property delivered through a variety of media. The ability to achieve anticipated results depends in part on the Company's ability to defend its intellectual property

against infringement, as well as the breadth of rights obtained. The Company's operating results could be adversely affected by inadequate legal and technological protections for its intellectual property and proprietary rights in some jurisdictions, markets and media, as well as by the costs of dealing with claims alleging infringement of the intellectual property rights of others, including claims involving business method patents in the ecommerce and internet areas and the licensing of photographs in the trade and educational publishing areas, and the Company's revenues could be constrained by limitations on the rights that the Company is able to secure to exploit its intellectual property in different media and distribution channels, as well as geographic limitations on the exploitation of such rights. Risks Related to External Factors Because we procure products and sell our products and services in foreign countries, changes in currency exchange rates, as well as other risks and uncertainties, could adversely affect our operations and financial results. The Company has various operating subsidiaries domiciled in foreign countries. In addition, the Company sells products and services to customers located in foreign countries where it does not have operating subsidiaries, and a significant portion of the Company's revenues are generated from outside of the United States. The Company's business processes, including distribution, sales, sourcing of content, marketing and advertising, are, accordingly, subject to multiple national, regional and local laws, regulations and policies. The Company could be adversely affected by noncompliance with foreign laws, regulations and policies, including those pertaining to foreign rights and exportation. The Company is also exposed to fluctuations in foreign currency exchange rates and to business disruption caused by political, financial or economic instability or the occurrence of war or natural disasters in foreign countries. In addition, the Company and its foreign operations could be adversely impacted by a downturn in general economic conditions on a more global basis caused by general political instability or unrest or changes in global economic affiliations or conditions, such as inflation. Changes in international trade relations with foreign countries, such as increased tariffs and duties (including those imposed by the United States) could cause the Company's costs to rise, or its overseas revenues to decline. Certain of our activities are subject to weather and natural disaster risks as well as other events outside our control, which could disrupt our operations or otherwise adversely affect our financial performance. The Company conducts certain of its businesses and maintains warehouse and office facilities in locations that are at risk of being negatively affected by severe weather and natural disaster events, including those caused by climate change, such as hurricanes, tornadoes, floods, snowstorms, **heat waves** or earthquakes. Notably, much of the Company's domestic distribution facilities are located in central Missouri. A disruption of these or other facilities could impact the Company's school-based **book fairs reading events business**, as well as its school-based **book clubs**, trade and education businesses. Additionally, disruptions due to weather, natural disaster, epidemic and pandemic could result in school closures, resulting in reduced demand for the Company's products in its school channels during the affected periods. Further, the Company may not be able to achieve its book fair count goals and may be materially impacted if widespread pandemic-related closures occur this coming school year. Increases in school security associated with high profile school shootings and other tragic incidents could impact the **Company's accessibility to schools for the school-based book fairs component of the Company's accessibility to schools reading events business**. We own certain significant real estate assets which are subject to various risks related to conditions affecting the real estate market. The Company has direct ownership of certain significant real estate assets, in particular the Company's headquarters location in New York City, its primary distribution center in Jefferson City, Missouri and the ~~new~~ UK facility in Warwickshire. The New York headquarters location serves a dual purpose as it also contains premium retail space that is or will be leased to retail tenants in order to generate rental income and cash flow. Accordingly, the Company is sensitive to various risk factors such as changes to real estate values and property taxes, pricing and demand for high end retail spaces in Soho, New York City, interest rates, cash flow of underlying real estate assets, supply and demand, and the credit worthiness of any retail tenants. There is also no guarantee that investment objectives for the retail component of the Company's real estate will be achieved. Risks Related to Stock Ownership Control of the Company resides in the Estate of our former Chairman of the Board, President and Chief Executive Officer through The Estate's ownership of Class A Stock, and the holders of the Common Stock generally have no voting rights with respect to transactions requiring stockholder approval. The voting power of the Corporation's capital stock is vested exclusively in the holders of Class A Stock, except for the right of the holders of Common Stock to elect one-fifth of the Board of Directors and except as otherwise provided by law or as may be established in favor of any series of preferred stock that may be issued. The Estate of Richard Robinson, the former Chairman of the Board, President and Chief Executive Officer of the Company, beneficially owns a majority of the outstanding shares of Class A Stock and is able to elect up to four-fifths of the Corporation's Board of Directors and, without the approval of the Corporation's other stockholders, to effect or block other actions or transactions requiring stockholder approval, such as a merger, sale of substantially all assets or similar transaction. Iole Lucchese, Chair of the Board of Directors, Executive Vice President and Chief Strategy Officer of the Company and President of Scholastic Entertainment, Inc., in her capacity as Scholastic special executor of the Estate under Mr. Robinson's will and revocable trust, controls the voting of the Estate's Class A Stock. Note The risk factors listed above should not be construed as exhaustive of all possible risks that the Company may face. Additional risks not currently known to the Company or that the Company does not consider to be significant at the present time could also impact the Company's consolidated financial position and results of operations. Forward-Looking Statements: This Annual Report on Form 10-K contains forward-looking statements relating to future periods. Additional written and oral forward-looking statements may be made by the Company from time to time in SEC filings and otherwise. The Company cautions readers that results or expectations expressed by forward-looking statements, including, without limitation, those relating to the Company's future business prospects and strategic plans, ecommerce and digital initiatives, new product introductions, strategies, new education standards and policies, goals, revenues, improved efficiencies, general costs, manufacturing costs, medical costs, potential cost savings, merit pay, operating margins, working capital, liquidity, capital needs, the cost and timing of capital projects, interest costs, cash flows and income, are subject to risks and uncertainties that could cause actual results to differ materially from those indicated in the forward-looking statements, due to factors including those noted in this Annual Report and other risks and factors

identified from time to time in the Company' s filings with the SEC. The Company disclaims any intention or obligation to update or revise forward- looking statements, whether as a result of new information, future events or otherwise.