

SCHOLASTIC CORP  
Form 10-Q  
September 21, 2017

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

FORM 10-Q

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

For the quarterly period ended August 31, 2017 Commission File No. 000-19860

SCHOLASTIC CORPORATION  
(Exact name of Registrant as specified in its charter)  
Delaware 13-3385513  
(State or  
other  
jurisdiction  
of (IRS Employer Identification No.)  
incorporation  
or  
organization)

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

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

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

Yes  No

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

Yes  No

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

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

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

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

Yes  No

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

Title of each class	Number of shares outstanding as of August 31, 2017
Common Stock, \$.01 par value	33,358,951
Class A Stock, \$.01 par value	1,656,200

SCHOLASTIC CORPORATION

FORM 10-Q FOR THE QUARTERLY PERIOD ENDED AUGUST 31, 2017

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## PART I - FINANCIAL INFORMATION

## Item 1. Financial Statements

## SCHOLASTIC CORPORATION

## CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS - UNAUDITED

(Dollar amounts in millions, except per share data)

	Three months ended	
	August 31, 2017	August 31, 2016
Revenues	\$189.2	\$282.7
Operating costs and expenses:		
Cost of goods sold	115.6	169.7
Selling, general and administrative expenses	158.8	166.0
Depreciation and amortization	9.9	9.5
Asset impairments	6.7	—
Total operating costs and expenses	291.0	345.2
Operating income (loss)	(101.8 )	(62.5 )
Interest income (expense), net	0.3	(0.3 )
Other components of net periodic benefit (cost)	(0.1 )	(0.6 )
Earnings (loss) from continuing operations before income taxes	(101.6 )	(63.4 )
Provision (benefit) for income taxes	(37.9 )	(23.9 )
Earnings (loss) from continuing operations	(63.7 )	(39.5 )
Earnings (loss) from discontinued operations, net of tax	—	(0.1 )
Net income (loss)	\$(63.7 )	\$(39.6 )
Basic and diluted earnings (loss) per Share of Class A and Common Stock		
Basic:		
Earnings (loss) from continuing operations	\$(1.81 )	\$(1.15 )
Earnings (loss) from discontinued operations, net of tax	\$—	\$(0.00 )
Net income (loss)	\$(1.81 )	\$(1.15 )
Diluted:		
Earnings (loss) from continuing operations	\$(1.81 )	\$(1.15 )
Earnings (loss) from discontinued operations, net of tax	\$—	\$(0.00 )
Net income (loss)	\$(1.81 )	\$(1.15 )
Dividends declared per Class A and Common Share	\$0.15	\$0.15

See accompanying notes

## SCHOLASTIC CORPORATION

## CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS) - UNAUDITED

(Dollar amounts in millions)

	Three months ended	
	August 31, 2017	August 31, 2016
Net income (loss)	\$(63.7)	\$(39.6)
Other comprehensive income (loss), net:		
Foreign currency translation adjustments	3.7	(1.9 )
Pension and post-retirement adjustments (net of tax)	0.5	0.7
Total other comprehensive income (loss)	\$4.2	\$(1.2 )
Comprehensive income (loss)	\$(59.5)	\$(40.8)

See accompanying notes

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

	August 31, 2017	May 31, 2017	August 31, 2016
<b>ASSETS</b>			
Current Assets:			
Cash and cash equivalents	\$ 311.9	\$ 444.1	\$ 287.6
Restricted cash held in escrow	—	—	5.0
Accounts receivable, net	145.4	199.2	222.6
Inventories, net	386.5	282.5	375.7
Prepaid expenses and other current assets	113.0	44.3	117.9
Current assets of discontinued operations	—	0.4	0.5
Total current assets	956.8	970.5	1,009.3
Property, plant and equipment, net	487.1	475.3	438.7
Prepublication costs, net	43.6	43.3	42.6
Royalty advances, net	42.6	41.8	45.3
Goodwill	119.2	118.9	116.3
Noncurrent deferred income taxes	53.8	53.7	69.0
Other assets and deferred charges	56.5	56.9	54.0
Total noncurrent assets	802.8	789.9	765.9
Total assets	\$ 1,759.6	\$ 1,760.4	\$ 1,775.2
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>			
Current Liabilities:			
Lines of credit and current portion of long-term debt	\$ 12.0	\$ 6.2	\$ 12.1
Accounts payable	187.2	141.2	203.6
Accrued royalties	51.9	34.2	66.3
Deferred revenue	44.7	24.2	45.2
Other accrued expenses	153.3	178.0	151.6
Accrued income taxes	1.8	2.8	2.0
Current liabilities of discontinued operations	—	0.5	0.3
Total current liabilities	450.9	387.1	481.1
Noncurrent Liabilities:			
Other noncurrent liabilities	65.7	65.4	75.5
Total noncurrent liabilities	65.7	65.4	75.5
Commitments and Contingencies (see Note 5)	—	—	—
Stockholders' Equity:			
Preferred Stock, \$1.00 par value	—	—	—
Class A Stock, \$0.01 par value	0.0	0.0	0.0
Common Stock, \$0.01 par value	0.4	0.4	0.4
Additional paid-in capital	608.5	606.8	601.7
Accumulated other comprehensive income (loss)	(90.0 )	(94.2 )	(87.9 )
Retained earnings	1,022.2	1,091.2	1,015.0
Treasury stock at cost	(298.1 )	(296.3 )	(310.6 )
Total stockholders' equity	1,243.0	1,307.9	1,218.6

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Total liabilities and stockholders' equity	\$ 1,759.6	\$ 1,760.4	\$ 1,775.2
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See accompanying notes

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

	Three months ended	
	August 31, 2017	August 31, 2016
Cash flows - operating activities:		
Net income (loss)	(63.7 )	(39.6 )
Earnings (loss) from discontinued operations, net of tax	—	(0.1 )
Earnings (loss) from continuing operations	(63.7 )	(39.5 )
Adjustments to reconcile earnings (loss) from continuing operations to net cash provided by (used in) operating activities of continuing operations:		
Provision for losses on accounts receivable	1.9	2.9
Provision for losses on inventory	3.5	4.1
Provision for losses on royalty advances	1.1	1.1
Amortization of prepublication and production costs	5.5	5.8
Depreciation and amortization	10.0	9.6
Amortization of pension and post-retirement actuarial gains and losses	0.6	1.0
Deferred income taxes	0.3	(0.3 )
Stock-based compensation	1.5	1.6
Income from equity investments	(1.2 )	(1.8 )
Non cash write off related to asset impairments	6.7	—
Changes in assets and liabilities, net of amounts acquired:		
Accounts receivable	53.0	(29.3 )
Inventories	(104.3)	(108.8)
Prepaid expenses and other current assets	(67.7 )	(49.4 )
Royalty advances	(1.7 )	(2.5 )
Accounts payable	51.9	69.7
Other accrued expenses	(25.8 )	(24.3 )
Accrued income taxes	(1.1 )	0.4
Accrued royalties	17.0	34.9
Deferred revenue	20.2	21.7
Pension and post-retirement liabilities	(1.6 )	(1.6 )
Other noncurrent liabilities	0.4	(0.1 )
Other, net	1.1	0.3
Total adjustments	(28.7 )	(65.0 )
Net cash provided by (used in) operating activities of continuing operations	(92.4 )	(104.5)
Net cash provided by (used in) operating activities of discontinued operations	—	(1.0 )
Net cash provided by (used in) operating activities	(92.4 )	(105.5)
Cash flows - investing activities:		
Prepublication and production expenditures	(5.9 )	(6.7 )
Additions to property, plant and equipment	(32.7 )	(10.2 )
Other investment and acquisition related payments	(0.2 )	(0.4 )
Net cash provided by (used in) investing activities of continuing operations	(38.8 )	(17.3 )



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Changes in restricted cash held in escrow for discontinued assets	—	4.9
Net cash provided by (used in) investing activities	(38.8 )	(12.4 )

See accompanying notes

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

	Three months ended	
	August 31, 2017	August 31, 2016
Cash flows - financing activities:		
Borrowings under lines of credit	20.1	12.4
Repayments of lines of credit	(13.6 )	(5.9 )
Repayment of capital lease obligations	(0.3 )	(0.3 )
Reacquisition of common stock	(4.2 )	—
Proceeds pursuant to stock-based compensation plans	2.8	5.2
Payment of dividends	(5.3 )	(5.2 )
Other	(0.8 )	(0.4 )
Net cash provided by (used in) financing activities	(1.3 )	5.8
Effect of exchange rate changes on cash and cash equivalents	0.3	0.0
Net increase (decrease) in cash and cash equivalents	(132.2 )	(112.1 )
Cash and cash equivalents at beginning of period	444.1	399.7
Cash and cash equivalents at end of period	\$311.9	\$287.6

See accompanying notes

SCHOLASTIC CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS – UNAUDITED

(Dollar amounts in millions, except per share data)

## 1. BASIS OF PRESENTATION

### Principles of consolidation

The accompanying condensed consolidated financial statements include the accounts of Scholastic Corporation (the “Corporation”) and all wholly-owned and majority-owned subsidiaries (collectively, “Scholastic” or the “Company”). Intercompany transactions are eliminated in consolidation. These financial statements have not been audited but reflect those adjustments consisting of normal recurring items that management considers necessary for a fair presentation of financial position, results of operations, comprehensive income (loss) and cash flows. These financial statements should be read in conjunction with the consolidated financial statements and related notes in the Annual Report on Form 10-K for the fiscal year ended May 31, 2017 (the “Annual Report”).

The Company’s fiscal year is not a calendar year. Accordingly, references in this document to fiscal 2017 relate to the twelve-month period ended May 31, 2017. Certain reclassifications have been made to conform to the current year presentation.

### Seasonality

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

### Use of estimates

The Company’s condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States and with the instructions to Form 10-Q and Regulation S-X. The preparation of these financial statements involves the use of estimates and assumptions by management, which affects the amounts reported in the condensed consolidated financial statements and accompanying notes. The Company bases its estimates on historical experience, current business factors, and various other assumptions believed to be reasonable under the circumstances, all of which are necessary in order to form a basis for determining the carrying values of assets and liabilities. Actual results may differ from those estimates and assumptions. On an on-going basis, the Company evaluates the adequacy of its reserves and the estimates used in calculations, including, but not limited to:

- Accounts receivable reserves for returns
- Accounts receivable allowance for doubtful accounts
- Pension and other post-retirement obligations
- Uncertain tax positions
- Inventory reserves
- Cost of goods sold from book fair operations during interim periods determined based on estimated gross profit rates

• Sales tax contingencies

• Royalty advance reserves

• Unredeemed incentive programs

• Impairment testing for goodwill for assessment and measurement, intangibles and other long-lived assets and investments

• Assets and liabilities acquired in business combinations

• Revenues for fairs which have not reported final results

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

New Accounting Pronouncements

Current Fiscal Quarter Adoptions:

ASU 2017-07

In March 2017, the Financial Accounting Standards Board (the "FASB") issued Accounting Standards Update (the "ASU") No. 2017-07, Compensation—Retirement Benefits (Topic 715): Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost. The ASU requires entities to disaggregate the service cost component from the other components of net periodic benefit costs and present it with other current compensation costs for related employees in the income statement, and present the other components elsewhere in the income statement and outside of income from operations if that subtotal is presented. The amendments in this update also allow only the service cost component to be eligible for capitalization when applicable. The ASU will be effective for the Company in the first quarter of fiscal 2019. Early adoption is permitted.

The Company has elected an early application of this ASU in the first quarter of this fiscal year ending May 31, 2018. As such the service cost component of net periodic benefit costs is still recognized in Selling, general and administrative expenses and the other components of net periodic benefit costs have been reclassified to Other components of net periodic benefit (cost) in the condensed consolidated statements of operations below Operating income (loss) on a retrospective basis. See Note 9, "Employee Benefit Plans," for net periodic (benefit) cost recognized in the periods presented.

ASU 2016-09

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

The Company has adopted this ASU in the first quarter of this fiscal year ending May 31, 2018. The Company will continue to estimate forfeitures at the time of grant and will now recognize the income tax effects of awards as a component of the Provision (benefit) for income taxes in the condensed consolidated statements of operations on a prospective basis. For the three month period ended August 31, 2017, the Company recognized a tax deficiency of approximately \$0.2.

ASU 2015-11

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

The Company has adopted this ASU in the first quarter of this fiscal year ending May 31, 2018. The amendments in this ASU did not have an impact on the consolidated financial position, results of operations and cash flows.

Forthcoming Adoptions:

Topic 606, Revenue from Contracts with Customers

In May 2014, the FASB announced that it is amending the FASB Accounting Standards Codification ("ASC") by issuing ASU 2014-09, Topic 606, Revenue from Contracts with Customers (the "New Revenue Standard"). The amendments in this ASU provide a single model for use in accounting for revenue arising from contracts with customers and supersede current revenue recognition guidance, including industry-specific revenue guidance. The core principle of the new ASU is that revenue should be recognized to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods and services. New disclosures about the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers are also required. In August 2015,

SCHOLASTIC CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS – UNAUDITED

(Dollar amounts in millions, except per share data)

the FASB issued ASU 2015-14 which deferred the effective date of the New Revenue Standard. In 2016, the FASB issued ASU 2016-08, ASU 2016-10, ASU 2016-11, and ASU 2016-12 to clarify, among other things, the implementation guidance related to principal versus agent considerations, identifying performance obligations, and accounting for licenses of intellectual property. The amendments in this update are to be applied on a retrospective basis, either to each prior reporting period presented or by presenting the cumulative effect of applying the update recognized at the date of initial application.

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

## 2. DISCONTINUED OPERATIONS

The Company continuously evaluates its portfolio of businesses for both impairment and economic viability, as well as for possible strategic dispositions. The Company monitors the expected cash proceeds to be realized from the disposition of discontinued operations' assets, and adjusts asset values accordingly.

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

As of May 31, 2017 and August 31, 2016, assets and liabilities of discontinued operations and loss from discontinued operations for the three months ended August 31, 2016 primarily related to insignificant continuing cash flows from passive activities.

## 3. SEGMENT INFORMATION

The Company categorizes its businesses into three reportable segments: Children's Book Publishing and Distribution; Education; and International.

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

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

International includes the publication and distribution of products and services outside the United States by the Company's international operations, and its export and foreign rights businesses. This segment is comprised of three

operating segments.

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## SCHOLASTIC CORPORATION

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS – UNAUDITED

(Dollar amounts in millions, except per share data)

	Children's Book Publishing & Distribution	Education	Overhead <sup>(1)</sup>	Total Domestic	International	Total
Three months ended						
August 31, 2017						
Revenues	\$ 66.8	\$ 45.0	\$ —	\$ 111.8	\$ 77.4	\$ 189.2
Bad debt	0.5	(0.1 )	—	0.4	1.5	1.9
Depreciation and amortization <sup>(2)</sup>	5.2	2.2	6.3	13.7	1.7	15.4
Asset impairments	—	—	6.7	6.7	—	6.7
Segment operating income (loss)	(58.9 )	(12.5 )	(27.6 )	(99.0 )	(2.8 )	(101.8 )
Segment assets at 8/31/17	476.9	176.1	845.6	1,498.6	261.0	1,759.6
Goodwill at 8/31/17	40.9	68.3	—	109.2	10.0	119.2
Expenditures for other non-current assets <sup>(3)</sup>	9.9	2.5	30.8	43.2	2.1	45.3
Other non-current assets at 8/31/17 <sup>(3)</sup>	140.2	94.5	429.7	664.4	68.0	732.4
Three months ended						
August 31, 2016						
Revenues	\$ 137.8	\$ 55.2	\$ —	\$ 193.0	\$ 89.7	\$ 282.7
Bad debt	1.3	(0.1 )	—	1.2	1.7	2.9
Depreciation and amortization <sup>(2)</sup>	5.6	2.0	5.7	13.3	2.0	15.3
Segment operating income (loss)	(36.2 )	(4.4 )	(26.1 )	(66.7 )	4.2	(62.5 )
Segment assets at 8/31/16	534.5	167.1	807.2	1,508.8	265.9	1,774.7
Goodwill at 8/31/16	40.9	65.4	—	106.3	10.0	116.3
Expenditures for other non-current assets <sup>(3)</sup>	25.9	2.6	8.5	37.0	2.8	39.8
Other non-current assets at 8/31/16 <sup>(3)</sup>	144.6	83.1	382.1	609.8	65.1	\$674.9

Overhead includes all domestic corporate amounts not allocated to segments, including expenses and costs related to the management of corporate assets. Unallocated assets are principally comprised of deferred income taxes and property, plant and equipment related to the Company's headquarters in the metropolitan New York area, its fulfillment and distribution facilities located in Missouri and its facility located in Connecticut.

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

Other non-current assets include property, plant and equipment, prepublication, production, royalty advances, goodwill, intangible assets and investments. Expenditures for other non-current assets for the International reportable segment include expenditures for long-lived assets of \$1.3 and \$1.3 for the three months ended August 31, 2017 and August 31, 2016, respectively. Other non-current assets for the International reportable segment include long-lived assets of \$33.9 and \$34.2 as of August 31, 2017 and August 31, 2016, respectively.

## 4. DEBT

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

	August 31, 2017	May 31, 2017	August 31, 2016
Revolving Loan (interest rates of n/a)	\$ —	\$ —	\$ —
Unsecured short term lines of credit (weighted average interest rates of 3.8%, 4.1% and 4.1%, respectively)	12.0	6.2	12.1
Total debt	\$ 12.0	\$ 6.2	\$ 12.1

The fair value of the Company's debt approximates the carrying value for all periods presented. The Company's debt obligations as of August 31, 2017, have maturities of one year or less.

Loan Agreement

SCHOLASTIC CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS – UNAUDITED

(Dollar amounts in millions, except per share data)

On January 5, 2017, Scholastic Corporation and Scholastic Inc. (each, a “Borrower” and together, the “Borrowers”) entered into a new 5-year credit facility with certain banks (the “Loan Agreement”). The Loan Agreement replaced the Company's then existing loan agreement and has substantially similar terms, except that:

- (i) the borrowing limit was reduced to \$375.0 from \$425.0;
- (ii) the “starter” basket for permitted payments of dividends and other payments in respect of capital stock was increased to \$275.0 from \$75.0; and
- (iii) the maturity date was extended to January 5, 2022.

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

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

- or -

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

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

A portion of the revolving credit facility up to a maximum of \$50.0 is available for the issuance of letters of credit. In addition, a portion of the revolving credit facility up to a maximum of \$15.0 is available for swingline loans. The Loan Agreement has an accordion feature which permits the Company, provided certain conditions are satisfied, to increase the facility by up to an additional \$150.0.

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

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

#### Lines of Credit

As of August 31, 2017, the Company's domestic credit lines available under unsecured money market bid rate credit lines totaled \$25.0. There were no outstanding borrowings under these credit lines as of August 31, 2017, May 31,

2017 or August 31, 2016. As of August 31, 2017, availability under these unsecured money market bid rate credit lines totaled \$20.1. All loans made under these credit lines are at the sole discretion of the lender and at an interest rate and term agreed to at the time each loan is made, but not to exceed 365 days. These credit lines may be renewed, if requested by the Company, at the option of the lender.

As of August 31, 2017, the Company had equivalent various local currency credit lines totaling \$24.2 underwritten by banks primarily in the United States, Canada and the United Kingdom. Outstanding borrowings

## SCHOLASTIC CORPORATION

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS – UNAUDITED

(Dollar amounts in millions, except per share data)

under these facilities were equivalent to \$12.0, at August 31, 2017 at a weighted average interest rate of 3.8%, \$6.2 at May 31, 2017 at a weighted average interest rate of 4.1% and \$12.1 at August 31, 2016 at a weighted average interest rate of 4.1%. As of August 31, 2017, the equivalent amounts available under these facilities totaled \$12.2. These credit lines are typically available for overdraft borrowings or loans up to 364 days and may be renewed, if requested by the Company, at the sole option of the lender.

## 5. COMMITMENTS AND CONTINGENCIES

Various claims and lawsuits arising in the normal course of business are pending against the Company. The Company accrues a liability for such matters when it is probable that a liability has occurred and the amount of such liability can be reasonably estimated. When only a range can be estimated, the most probable amount in the range is accrued unless no amount within the range is a better estimate than any other amount, in which case the minimum amount in the range is accrued. Legal costs associated with litigation loss contingencies are expensed in the period in which they are incurred. The Company does not expect, in the case of those various claims and lawsuits arising in the normal course of business where a loss is considered probable or reasonably possible, that the reasonably possible losses from such claims and lawsuits (either individually or in the aggregate) would have a material adverse effect on the Company's consolidated financial position or results of operations. See Note 14, "Income Taxes and Other Taxes," for further discussion.

## 6. EARNINGS (LOSS) PER SHARE

The following table summarizes the reconciliation of the numerators and denominators for the basic and diluted earnings (loss) per share computation for the periods indicated:

	Three months ended	
	August 31, 2017	August 31, 2016
Earnings (loss) from continuing operations attributable to Class A and Common Shares	\$(63.7)	\$(39.5)
Earnings (loss) from discontinued operations attributable to Class A and Common Shares, net of tax	—	(0.1)
Net income (loss) attributable to Class A and Common Shares	\$(63.7)	\$(39.6)
Weighted average Shares of Class A Stock and Common Stock outstanding for basic earnings (loss) per share (in millions)	35.2	34.4
Dilutive effect of Class A Stock and Common Stock potentially issuable pursuant to stock-based compensation plans (in millions)	*	*
Adjusted weighted average Shares of Class A Stock and Common Stock outstanding for diluted earnings (loss) per share (in millions)	*	*
Earnings (loss) per share of Class A Stock and Common Stock:		
Basic earnings (loss) per share:		
Earnings (loss) from continuing operations	\$(1.81)	\$(1.15)
Earnings (loss) from discontinued operations, net of tax	\$—	\$(0.00)
Net income (loss)	\$(1.81)	\$(1.15)
Diluted earnings (loss) per share:		
Earnings (loss) from continuing operations	\$(1.81)	\$(1.15)

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Earnings (loss) from discontinued operations, net of tax	\$—	\$(0.00)
Net income (loss)	\$(1.81)	\$(1.15)

\* In each of the three month periods ended August 31, 2017 and 2016, the Company experienced a loss from continuing operations and therefore did not report any dilutive share impact.

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

	August 31, 2017	August 31, 2016
Options outstanding pursuant to stock-based compensation plans (in millions)	2.6	2.8

## SCHOLASTIC CORPORATION

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS – UNAUDITED

(Dollar amounts in millions, except per share data)

In a period in which the Company reports a discontinued operation, Earnings (loss) from continuing operations is used as the “control number” in determining whether potentially dilutive common shares are dilutive or anti-dilutive. There were 0.4 million potentially anti-dilutive shares outstanding pursuant to compensation plans as of August 31, 2017.

A portion of the Company’s Restricted Stock Units ("RSUs") which are granted to employees participate in earnings through cumulative dividends payable to the employees upon vesting of the RSUs. Accordingly, the Company measures earnings per share based upon the lower of the Two-class method or the Treasury Stock method. Since, under the Two-class method, losses are not allocated to the participating securities, in periods of loss the Two-class method is not applicable.

As of August 31, 2017, \$33.9 remained available for future purchases of common shares under the current repurchase authorization of the Board of Directors (the "Board"). See Note 11, “Treasury Stock,” for a more complete description of the Company’s share buy-back program.

## 7. GOODWILL AND OTHER INTANGIBLES

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

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

	Three months ended August 31, 2017	Twelve months ended May 31, 2017	Three months ended August 31, 2016
Beginning balance	\$ 118.9	\$ 116.2	\$ 116.2
Additions	—	2.8	—
Foreign currency translation	0.3	(0.1 )	0.1
Total goodwill	\$ 119.2	\$ 118.9	\$ 116.3

Accumulated goodwill impairment losses totaled \$39.6 as of August 31, 2017, May 31, 2017 and August 31, 2016. There were no goodwill impairment losses during the three months ended August 31, 2017 and August 31, 2016.

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

Three months ended August 31, 2017	Twelve months ended May 31, 2017	Three months ended August 31, 2016

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Beginning balance other intangibles subject to amortization	\$ 9.0	\$ 4.7	\$ 4.7
Additions	0.1	7.0	0.2
Amortization expense	(0.5 )	(2.5 )	(0.6 )
Foreign currency translation	0.0	(0.2 )	(0.1 )
Total other intangibles subject to amortization, net of accumulated amortization of \$22.5, \$22.0 and \$20.1, respectively	\$ 8.6	\$ 9.0	\$ 4.2
Total other intangibles not subject to amortization	\$ 2.1	\$ 2.1	\$ 2.1
Total other intangibles	\$ 10.7	\$ 11.1	\$ 6.3

In the first quarter of fiscal 2018, the Company purchased a U.S. based book fair business resulting in the recognition of \$0.1 of amortizable intangible assets.

Intangible assets with definite lives consist principally of customer lists, intellectual property rights and other agreements. Intangible assets with definite lives are amortized over their estimated useful lives. The weighted-



SCHOLASTIC CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS – UNAUDITED

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average remaining useful lives of all amortizable intangible assets is approximately 4.5 years. Intangible assets with indefinite lives consist principally of trademark and trademark rights.

8. INVESTMENTS

Included in “Other assets and deferred charges” on the Company’s condensed consolidated balance sheets were investments of \$28.7, \$28.6 and \$25.5 at August 31, 2017, May 31, 2017 and August 31, 2016, respectively.

The Company's 48.5% equity interest in Make Believe Ideas Limited (MBI), a UK-based children's book publishing company, is accounted for using the equity method of accounting. Under the purchase agreement, and subject to its provisions, the Company will likely purchase the remaining outstanding shares in MBI following the completion of MBI's accounts for the calendar year 2018. The net carrying value of this investment was \$9.3, \$8.6 and \$7.8 at August 31, 2017, May 31, 2017 and August 31, 2016, respectively. Equity method income from this investment is reported in the International segment.

The Company’s 26.2% non-controlling interest in a separate children’s book publishing business located in the UK is accounted for using the equity method of accounting. The net carrying value of this investment was \$19.4, \$20.0 and \$17.7 at August 31, 2017, May 31, 2017 and August 31, 2016, respectively. Equity method income from this investment is reported in the International segment.

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

Income from equity investments reported in "Selling, general and administrative expenses" in the condensed consolidated statements of operations totaled \$1.2 and \$1.8 for the three months ended August 31, 2017 and August 31, 2016, respectively.

9. EMPLOYEE BENEFIT PLANS

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

U.S. Pension Plan	UK Pension Plan	Post-Retirement Benefits
Three months ended	Three months ended	Three months ended
August 31, 2017	August 31, 2016	August 31, 2017
August 31, 2017	August 31, 2016	August 31, 2017
August 31, 2017	August 31, 2016	August 31, 2017
August 31, 2017	August 31, 2016	August 31, 2017

Components of net periodic (benefit) cost:

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Service cost	\$—	\$—	\$—	\$—	\$ 0.0	\$ 0.0
Interest cost	0.7	0.8	0.3	0.3	0.3	0.3
Expected return on assets	(1.5 )	(1.5 )	(0.3 )	(0.3 )	—	—
Amortization of (gain) loss	0.3	0.2	0.3	0.2	0.0	0.6
Net periodic (benefit) cost	\$(0.5)	\$(0.5)	\$0.3	\$ 0.2	\$ 0.3	\$ 0.9

The Company's funding practice with respect to the Pension Plans is to contribute on an annual basis at least the minimum amounts required by applicable laws. For the three months ended August 31, 2017, the Company made no contribution to the U.S. Pension Plan and contributed \$0.3 to the UK Pension Plan. The Company expects, based on actuarial calculations, to contribute cash of approximately \$1.1 to the UK Pension Plan for the fiscal year ending May 31, 2018.

## SCHOLASTIC CORPORATION

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS – UNAUDITED

(Dollar amounts in millions, except per share data)

In the current fiscal year, the U.S. Pension Plan's funding status is sufficient to allow participants to receive "lump sum" payments at the participant's request. Under certain circumstances, such lump sum payments must be accounted for as a settlement of the related pension obligation when paid. If these requests exceed \$3.0 in the current fiscal year, the Company will recognize a settlement charge related to net unrecognized pension benefit costs in respect of the lump sum benefit payments made. For the three months ended August 31, 2017, the Company made \$0.6 of lump sum benefit payments to vested plan participants.

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

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

## 10. STOCK-BASED COMPENSATION

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

	Three months ended August 31, 31, 2017 2016	
Stock option expense	\$0.8	\$ 0.8
Restricted stock unit expense	0.6	0.7
Management stock purchase plan	0.0	0.0
Employee stock purchase plan	0.1	0.1
Total stock-based compensation expense	\$1.5	\$ 1.6

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The following table sets forth Common Stock issued pursuant to stock-based compensation plans as of the dates indicated:

	Three months ended August 31, 2017	August 31, 2016
Common Stock issued pursuant to stock-based compensation plans (in millions)	0.1	0.2

11. TREASURY STOCK

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

## SCHOLASTIC CORPORATION

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS – UNAUDITED

(Dollar amounts in millions, except per share data)

The table below represents the current Board authorization:

	Amount
July 2015	50.0
Less repurchases made under the authorization as of August 31, 2017	(16.1 )
Remaining Board authorization at August 31, 2017	\$ 33.9

On July 22, 2015, the Board authorized \$50.0 for the share buy-back program, to be funded with available cash. Repurchases of Common Stock were \$4.7 during the three months ended August 31, 2017. The Company's repurchase program may be suspended at any time without prior notice.

## 12. ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)

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

	Three months ended August 31, 2017		
	Foreign currency translation adjustments	Retirement benefit plans	Total
Beginning balance	\$(45.3)	\$ (48.9 )	\$(94.2)
Other comprehensive income (loss) before reclassifications	3.7	—	3.7
Less: amount reclassified from Accumulated other comprehensive income (loss)	—	0.5	0.5
Other comprehensive income (loss)	3.7	0.5	4.2
Ending balance	\$(41.6)	\$ (48.4 )	\$(90.0)

	Three months ended August 31, 2016		
	Foreign currency translation adjustments	Retirement benefit plans	Total
Beginning balance	\$(40.0)	\$ (46.7 )	\$(86.7)
Other comprehensive income (loss) before reclassifications	(1.9 )	—	(1.9 )
Less: amount reclassified from Accumulated other comprehensive income (loss)	—	0.7	0.7
Other comprehensive income (loss)	(1.9 )	0.7	(1.2 )
Ending balance	\$(41.9)	\$ (46.0 )	\$(87.9)

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

Three months ended	Affected line items in the condensed consolidated statements of operations
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August August  
 31, 31,  
 2017 2016

Employee benefit plans:

Amortization of unrecognized gain

(loss)

included in net periodic benefit

\$0.6 \$ 1.0

Other components of net periodic benefit (cost)

(cost)

Less: Tax effect

(0.1 ) (0.3 ) Income tax expense (benefit)

Total expense, net of tax

\$0.5 \$ 0.7

13. FAIR VALUE MEASUREMENTS

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SCHOLASTIC CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS – UNAUDITED

(Dollar amounts in millions, except per share data)

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

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

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

Quoted prices for similar assets or liabilities in active markets

Quoted prices for identical or similar assets or liabilities in inactive markets

Inputs other than quoted prices that are observable for the asset or liability

Inputs that are derived principally from or corroborated by observable market data by correlation or other means

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

The Company's financial assets and liabilities measured at fair value consisted of cash and cash equivalents, debt and foreign currency forward contracts. Cash and cash equivalents are comprised of bank deposits and short-term investments, such as money market funds, the fair value of which is based on quoted market prices, a Level 1 fair value measure. The Company employs Level 2 fair value measurements for the disclosure of the fair value of its various lines of credit. The fair value of the Company's debt approximates the carrying value for all periods presented. The fair values of foreign currency forward contracts, used by the Company to manage the impact of foreign exchange rate changes to the financial statements, are based on quotations from financial institutions, a Level 2 fair value measure. See Note 15, "Derivatives and Hedging," for a more complete description of fair value measurements employed.

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

Long-lived assets

Investments

Assets acquired in a business combination

Goodwill, definite and indefinite-lived intangible assets

Long-lived assets held for sale

Level 2 and level 3 inputs are employed by the Company in the fair value measurement of these assets and liabilities. For the fair value measurements employed by the Company for goodwill see Note 7, "Goodwill and Other Intangibles." For the fair value measurements employed by the Company for certain property, plant and equipment, production assets, investments and prepublication assets, the Company assesses future expected cash flows attributable to these assets.

## 14. INCOME TAXES AND OTHER TAXES

### Income Taxes

In calculating the provision for income taxes on an interim basis, the Company uses an estimate of the annual effective tax rate based upon the facts and circumstances known and applies that rate to its year-to-date earnings or losses. The Company's effective tax rate is based on expected income and statutory tax rates and takes into consideration permanent differences between financial statement and tax return income applicable to the Company in the various jurisdictions in which the Company operates. The effect of discrete items, such as changes in estimates, changes in enacted tax laws or rates or tax status, and unusual or infrequently occurring events, is recognized in the interim period in which the discrete item occurs. The accounting estimates used to



SCHOLASTIC CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS – UNAUDITED

(Dollar amounts in millions, except per share data)

compute the provision for income taxes may change as new events occur, additional information is obtained or as the result of new judicial interpretations or regulatory or tax law changes.

The Company's annual effective tax rate, exclusive of discrete items, unbenefitted foreign losses, and release of associated valuation allowances, used to calculate the interim tax provision is expected to be approximately 39.6%. The interim effective tax rate, inclusive of discrete items, was 37.3% for the three month period ended August 31, 2017.

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

#### Non-income Taxes

The Company is subject to tax examinations for sales-based taxes. A number of these examinations are ongoing and, in certain cases, have resulted in assessments from taxing authorities. The Company assesses sales tax contingencies for each jurisdiction in which it operates, considering all relevant facts including statutes, regulations, case law and experience. When a sales tax liability with respect to a particular jurisdiction is probable and can be reliably estimated for such jurisdiction, the Company has made accruals for these matters which are reflected in the Company's condensed consolidated financial statements in Selling, general and administrative expenses. Future developments relating to the foregoing could result in adjustments being made to these accruals.

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

#### 15. DERIVATIVES AND HEDGING

The Company enters into foreign currency derivative contracts to economically hedge the exposure to foreign currency fluctuations associated with the forecasted purchase of inventory and the foreign exchange risk associated with certain receivables denominated in foreign currencies and certain future commitments for foreign expenditures. These derivative contracts are economic hedges and are not designated as cash flow hedges. The Company marks-to-market these instruments and records the changes in the fair value of these items in Selling, general and administrative expenses in the condensed consolidated statements of operations, and it recognizes the unrealized gain or loss in other current assets or current liabilities. The notional values of the contracts as of August 31, 2017 and August 31, 2016 were \$36.5 and \$30.8, respectively. Unrealized losses of \$1.2 and \$0.8 were recognized at August 31, 2017 and August 31, 2016, respectively, for the three month periods then ended.

#### 16. OTHER ACCRUED EXPENSES

Other accrued expenses consist of the following as of the dates indicated:

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	August 31, 2017	May 31, 2017	August 31, 2016
Accrued payroll, payroll taxes and benefits	\$ 46.3	\$ 48.5	\$ 42.9
Accrued bonus and commissions	13.3	33.8	13.1
Accrued other taxes	21.5	26.1	25.4
Accrued advertising and promotions	31.9	34.9	31.9
Accrued insurance	7.5	7.6	8.0
Other accrued expenses	32.8	27.1	30.3
Total accrued expenses	\$ 153.3	\$ 178.0	\$ 151.6

SCHOLASTIC CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS – UNAUDITED

(Dollar amounts in millions, except per share data)

17. SUBSEQUENT EVENTS

The Company's Board of Directors declared a quarterly cash dividend of \$0.15 per share on the Company's Class A and Common Stock for the second quarter of fiscal 2018. The dividend is payable on December 15, 2017 to shareholders of record as of the close of business on October 31, 2017.

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## SCHOLASTIC CORPORATION

## Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations ("MD&amp;A")

## Overview and Outlook

Revenues from continuing operations in the quarter ended August 31, 2017 were \$189.2 million, compared to \$282.7 million in the prior fiscal year quarter, a decrease of \$93.5 million. The Company reported a net loss per basic and diluted share of \$1.81 in the first quarter of fiscal 2017, compared to a net loss per basic and diluted share of \$1.15 in the prior fiscal year quarter, which reflects both continuing and discontinued operations.

The Company expected revenue declines in the first quarter of fiscal 2018, particularly in the Children's Book Publishing and Distribution and International segments, following the July 2016 publication of Harry Potter and the Cursed Child: Parts One and Two, the best-selling book last fiscal year. While sales in the Education segment were lower in the current fiscal quarter based on timing, the Company expects to meet the revenue plan for the education business for the fiscal year. Since its release on August 29, 2017, Dave Pilkey's Dog Man: A Tale of Two Kitties has been the top seller of all books in the U.S. and Canada. Strong children's titles also include: I Survived the American Revolution, 1776; The Bad Guys in Attack of the Zittens; and the new paperback edition of Harry Potter and the Cursed Child: Parts One and Two.

As we look forward to the Company's 100<sup>th</sup> anniversary of producing great content, the Company has initiated the Scholastic 2020 plan, which is designed to grow operating profits over the next three fiscal years. Scholastic 2020 is a performance management structure that will leverage ongoing strategic technology investments to provide more comprehensive customer data to improve sales and marketing efficiency, as well as better information in manufacturing, inventory management, supply chain and transportation areas of the business to drive process improvements and reduce distribution costs. To that end, the Company expects improved financial information with the deployment of a new Oracle ERP and through the implementation of an Oracle Transportation Management System, both occurring over the course of the fiscal year. The Company is expecting to introduce a new CRM system in June 2018, which will drive improvements in marketing of school-based businesses. Scholastic 2020 provides a framework for identifying and scheduling the specific tasks needed each week, month and quarter to reach the goals for improved profitability over the next three fiscal years.

## Results of Operations – Consolidated

Revenues for the quarter ended August 31, 2017 decreased to \$189.2 million, compared to \$282.7 million in the prior fiscal year quarter. The Children's Book Publishing and Distribution segment revenues decreased \$71.0 million, primarily driven by lower sales of Harry Potter themed titles due to the prior year's success of Harry Potter and the Cursed Child: Parts One and Two. The Education segment revenues decreased \$10.2 million, primarily driven by lower sales of curriculum publishing products. In local currency, the International segment revenues decreased \$12.9 million, primarily driven by lower sales of Harry Potter themed titles in Canada and certain export trade channels when compared to the success of Harry Potter and the Cursed Child: Parts One and Two in the prior fiscal year quarter. International revenues were also impacted by favorable foreign exchange translation of \$0.6 million.

Components of Cost of goods sold for the three months ended August 31, 2017 and August 31, 2016 are as follows:

	Three months ended			
	August 31, 2017		August 31, 2016	
(\$ amounts in millions)	\$	% of Revenue	\$	% of Revenue
Product, service and production costs	\$51.5	27.2 %	\$71.2	25.2 %
Royalty costs	18.1	9.6 %	50.7	17.9 %
Prepublication and production amortization	5.5	2.9 %	5.7	2.0 %

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Postage, freight, shipping, fulfillment and other	40.5	21.4	%	42.1	14.9	%
Total	\$115.6	61.1	%	\$169.7	60.0	%

Cost of goods sold as a percentage of revenue for the quarter ended August 31, 2017 increased to 61.1%, compared to 60.0% in the prior fiscal year quarter. The increase in Cost of goods sold as a percentage of

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## SCHOLASTIC CORPORATION

## Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations ("MD&amp;A")

revenue was primarily due to the unfavorable impact lower revenues had on fixed costs, partially offset by lower royalty costs associated with the decrease in sales of Harry Potter themed titles.

Selling, general and administrative expenses in the quarter ended August 31, 2017 decreased to \$158.8 million, compared to \$166.0 million in the prior fiscal year quarter. The decrease in expense was primarily related to lower employee-related expenses due in part to lower medical claims experience and a decrease in promotional spending, partially offset by \$1.6 million in higher severance expenses related to cost saving initiatives.

Depreciation and amortization expenses in the quarter ended August 31, 2017 increased to \$9.9 million, compared to \$9.5 million in the prior fiscal year quarter. The increase was primarily attributable to additional capitalized strategic technology assets placed into service during the first quarter of fiscal 2018 resulting in additional depreciation expense.

Net interest income in the quarter ended August 31, 2017 increased to \$0.3 million, compared to net interest expense of \$0.3 million in the prior fiscal year quarter. The \$0.6 million increase was primarily driven by higher interest income associated with the Company's cash and cash equivalents balance while interest expense remained relatively flat due to the absence of long-term debt.

The Company's effective tax rate for the first quarter of fiscal 2018 was 37.3%, compared to 37.7% in the prior fiscal year quarter. For the full year, the Company expects an effective tax rate, inclusive of discrete items, of approximately 40.4%.

Loss from continuing operations for the quarter ended August 31, 2017 increased by \$24.2 million to \$63.7 million, compared to a loss of \$39.5 million in the prior fiscal year quarter. Loss from continuing operations per basic and diluted share of Class A Stock and Common Stock was \$1.81 in the quarter ended August 31, 2017, compared to \$1.15 in the prior fiscal year quarter.

Net loss for the quarter ended August 31, 2017 increased by \$24.1 million to \$63.7 million, compared to \$39.6 million in the prior fiscal year quarter. Net loss per basic and diluted share of Class A Stock and Common Stock was \$1.81 in the quarter ended August 31, 2017, compared to \$1.15 in the prior fiscal year quarter.

## Results of Continuing Operations

## Children's Book Publishing and Distribution

	Three months ended			
	August 31, 2017	August 31, 2016	\$ change	% change
(\$ amounts in millions)				
Revenues	\$66.8	\$ 137.8	\$(71.0)	-51.5 %
Cost of goods sold	43.2	87.1	(43.9 )	-50.4 %
Other operating expenses*	82.5	86.9	(4.4 )	-5.1 %
Operating income (loss)	\$(58.9)	\$(36.2)	\$(22.7)	
Operating margin	— %	— %		

\* Other operating expenses include selling, general and administrative expenses, bad debt expenses and depreciation and amortization.

Revenues for the quarter ended August 31, 2017 decreased to \$66.8 million, compared to \$137.8 million in the prior fiscal year quarter. Trade channel revenues decreased \$70.2 million, primarily driven by lower sales of Harry Potter themed titles due to the prior year's success of Harry Potter and the Cursed Child: Parts One and Two, partially offset by an increase in sales from successful titles such as: Dog Man: A Tale of Two Kitties, I Survived the American Revolution, 1776; The Bad Guys in Attack of the Zittens; and Refugee by Alan Gratz. Revenues from the book club and book fairs channels were relatively flat, decreasing \$0.8 million when compared to the prior fiscal year quarter. Revenues from these channels generally are not significant in the first quarter as most schools are not in session.

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## Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations ("MD&amp;A")

Cost of goods sold for the quarter ended August 31, 2017 was \$43.2 million, or 65% of revenues, compared to \$87.1 million, or 63% of revenues, in the prior fiscal year quarter. The increase in Cost of goods sold as a percent of revenues was due to the unfavorable impact lower revenues had on fixed costs, partially offset by lower royalty costs associated with the decrease in sales of Harry Potter themed titles.

Other operating expenses for the quarter ended August 31, 2017 decreased to \$82.5 million, compared to \$86.9 million in the prior fiscal year quarter. The decrease in expense was primarily related to lower employee-related expenses due in part to lower medical claims experience and a decrease in promotional spending, partially offset by the impact of the wage improvement program for employees in the U.S. distribution centers.

Segment operating loss for the quarter ended August 31, 2017 increased to \$58.9 million, compared to \$36.2 million in the prior fiscal year quarter. This was primarily driven by the lower sales in the trade channel. The segment generally experiences a loss in the first quarter of the fiscal year as the school channels are incurring expenses for the upcoming school year, but do not yet have significant revenues.

## Education

	Three months ended			
	August 31, 2017	August 31, 2016	change	% change
(\$ amounts in millions)				
Revenues	\$45.0	\$ 55.2	\$(10.2)	-18.5 %
Cost of goods sold	18.9	21.9	(3.0 )	-13.7 %
Other operating expenses*	38.6	37.7	0.9	2.4 %
Operating income (loss)	\$(12.5)	\$ (4.4 )	\$(8.1 )	
Operating margin	— %	— %		

\* Other operating expenses include selling, general and administrative expenses, bad debt expenses and depreciation and amortization.

Revenues for the quarter ended August 31, 2017 decreased to \$45.0 million, compared to \$55.2 million in the prior fiscal year quarter. \$9.0 million of the decrease was primarily the result of the timing of orders for customized curriculum product, partially offset by higher sales in professional learning products and services. In addition, the magazine channel revenues decreased \$1.2 million due to the absence of U.S. presidential election related materials in fiscal 2018.

Cost of goods sold for the quarter ended August 31, 2017 was \$18.9 million, or 42% of revenues, compared to \$21.9 million, or 40% of revenues, in the prior fiscal year quarter. The increase in costs of goods sold as a percentage of revenues was primarily driven by the absence of sales of the U.S. presidential election materials which typically carry favorable margins coupled with the impact lower overall revenues have on fixed costs.

Other operating expenses increased to \$38.6 million for the quarter ended August 31, 2017, compared to \$37.7 million in the prior fiscal year quarter. The increase was mainly attributable to higher employee-related expenses due in part to the impact of the wage improvement program for employees in the U.S. distribution centers and higher employee expenses for the expansion of the sales and marketing organizations supporting curriculum publishing.

Segment operating loss in the quarter ended August 31, 2017 increased by \$8.1 million compared to the prior fiscal year quarter. This was primarily driven by the decrease in sales and higher employee-related expenses.





## SCHOLASTIC CORPORATION

## Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations ("MD&amp;A")

## International

	Three months ended			
	August 31, 2017	August 31, 2016	\$ change	% change
(\$ amounts in millions)				
Revenues	\$77.4	\$89.7	\$(12.3)	-13.7 %
Cost of goods sold	40.3	47.9	(7.6 )	-15.9 %
Other operating expenses*	39.9	37.6	2.3	6.1 %
Operating income (loss)	\$(2.8 )	\$4.2	\$(7.0 )	
Operating margin	— %	4.7 %		

\* Other operating expenses include selling, general and administrative expenses, bad debt expenses, severance and depreciation and amortization.

Revenues for the quarter ended August 31, 2017 decreased to \$77.4 million, compared to \$89.7 million in the prior fiscal year quarter. Total local currency revenues across the Company's foreign operations decreased by \$12.9 million when compared to the prior fiscal year quarter. Local currency revenues from Canada decreased \$7.6 million primarily driven by lower sales of Harry Potter themed titles due to the success of Harry Potter and the Cursed Child: Parts One and Two in the prior fiscal year quarter. Local currency revenues from the Company's Asia operations coupled with the export and foreign rights channels decreased \$4.4 million primarily due a decline in certain export trade sales also driven by the prior year's success of Harry Potter themed titles. Local currency revenues from Australia and New Zealand decreased \$1.7 million, primarily due to lower software distribution revenues of \$2.2 million as the Company exited this low margin business in Australia. This was partially offset by higher revenues in the Australia and New Zealand book club channels. Local currency revenues from the UK increased \$0.8 million, primarily due to an increase in revenues driven by licensed product. Total revenues for the segment were also impacted by \$0.6 million in favorable foreign exchange translation.

Cost of goods sold for the quarter ended August 31, 2017 was \$40.3 million, or 52% of revenues, compared to \$47.9 million, or 53% of revenues, in the prior fiscal year quarter. Cost of goods sold as a percentage of revenues decreased primarily due to Australia's exit of the low margin software distribution business.

Other operating expenses for the quarter ended August 31, 2017 were \$39.9 million, compared to \$37.6 million in the prior fiscal year quarter. In local currencies, Other operating expenses increased by \$0.4 million. The local currency increase was primarily related to unfavorable changes in certain non-controlling equity interests.

Segment operating loss for the quarter ended August 31, 2017 increased by \$7.0 million, compared to segment operating income of \$4.2 million in the prior fiscal year quarter. This was primarily driven by lower sales.

## Overhead

Unallocated overhead expense for the quarter ended August 31, 2017 increased by \$1.5 million to \$27.6 million, from \$26.1 million in the prior fiscal year quarter. The increase was primarily related to a \$6.7 million impairment charge related to the abandonment of legacy building improvements in connection with the Company's renovation of its headquarters in New York City and higher severance expense related to cost saving initiatives of \$1.6 million. The increase was partially offset by lower employee-related expenses due in part to lower medical claims experience and lower unallocated expenses related to the strategic technology platforms for new enterprise-wide customer and content management systems, the migration to SaaS and cloud-based technology solutions and improvements to company websites. As these strategic projects progress the related operating expenses will be allocated to the various divisions

of the Company resulting in a decrease in expenses within the Overhead segment.

The Company expects costs associated with its strategic technology initiatives to continue into future fiscal periods as well as the incurrence of additional impairment charges related to the renovation of the Company's

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headquarters location in New York City as upcoming phases of the renovation project result in the abandonment of additional legacy building improvements.

Seasonality

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

Liquidity and Capital Resources

The Company's cash and cash equivalents totaled \$311.9 million at August 31, 2017, \$444.1 million at May 31, 2017 and \$287.6 million at August 31, 2016. Cash and cash equivalents held by the Company's U.S. operations totaled \$297.2 million at August 31, 2017, \$430.5 million at May 31, 2017 and \$273.1 million at August 31, 2016.

Cash used in operating activities was \$92.4 million for the three months ended August 31, 2017, compared to cash used in operating activities of \$105.5 million for the prior fiscal year period, representing a decrease in cash used in operating activities of \$13.1 million. The decrease in cash used was primarily due to favorable changes in operating assets and liabilities of \$30.4 million, primarily driven by increased accounts receivable collections partially offset by higher royalty payments, which were both due to the higher sales in the prior fiscal year quarter. The favorable changes in operating assets and liabilities were partially offset by the increase in the loss from operations driven by the decline in revenues from Harry Potter themed titles compared to the prior fiscal year quarter.

Cash used in investing activities was \$38.8 million for the three months ended August 31, 2017, compared to cash used in investing activities of \$12.4 million in the prior fiscal year period, representing higher cash used in investing activities of \$26.4 million. Higher capital spending in the period ended August 31, 2017 resulted in a use of cash of \$22.5 million due to increased spending for strategic technology initiatives and the investment plan to create premium retail space and modernize the Company's headquarters office space. This trend is expected to continue for the current and future fiscal year periods. In addition, the prior fiscal year quarter included \$4.9 million of cash released from the escrow established in connection with the sale of the Company's educational technology and services business.

Cash used in financing activities was \$1.3 million for the three months ended August 31, 2017, compared to cash provided by financing activities of \$5.8 million for the prior fiscal year period, representing an increase in cash used in financing activities of \$7.1 million. The increase was primarily driven by an increase in common stock repurchases of \$4.2 million and the Company receiving lower proceeds pursuant to employee stock plans of \$2.4 million.

Due to the seasonal nature of its business as discussed under "Seasonality" above, the Company usually experiences negative cash flows in the June through October time period. As a result of the Company's business cycle, borrowings have historically increased during June, July and August, have generally peaked in September or October, and have been at their lowest point in May.

As described in Item 1A Risk Factors in the Annual Report on Form 10-K for the fiscal year ended May 31, 2017, certain activities of the Company are subject to weather risks, which could disrupt operations or otherwise adversely affect the Company's financial performance. The Company is currently evaluating the impact hurricanes Harvey and

Irma could have on the Company's operations in the Houston and Florida regions. Damage to the Company's facilities and other assets in those regions appears to be minimal based on available information; however, the severe weather will likely result in school and retail store closings that could impact sales of the Company's products to the extent book club offers may be affected or book fair events are not rescheduled (or the timing of revenues due to rescheduling), as well as a loss of sales resulting from retail store

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closings. However, the Company does not anticipate a financial loss that would have a significant impact to the liquidity of its ongoing operations.

The Company's operating philosophy is to use cash provided by operating activities to create value by paying down debt, reinvesting in existing businesses and, from time to time, making acquisitions that will complement its portfolio of businesses or acquiring other strategic assets, as well as engaging in shareholder enhancement initiatives, such as share repurchases or dividend declarations.

The Company has maintained, and expects to maintain for the foreseeable future, sufficient liquidity to fund ongoing operations, including pension contributions, dividends, currently authorized common share repurchases, debt service, planned capital expenditures and other investments. As of August 31, 2017, the Company's primary sources of liquidity consisted of cash and cash equivalents of \$311.9 million, cash from operations, and funding available under the Revolving Loan totaling approximately \$375.0 million. The Company may at any time, but in any event not more than once in any calendar year, request that the aggregate availability of credit under the Revolving Loan be increased by an amount of \$10.0 million or an integral multiple of \$10.0 million (but not to exceed \$150.0 million). Additionally, the Company has short-term credit facilities of \$49.2 million, less current borrowings of \$12.0 million and commitments of \$4.9 million, resulting in \$32.3 million of current availability at August 31, 2017. Accordingly, the Company believes these sources of liquidity are sufficient to finance its ongoing operating needs, as well as its financing and investing activities.

Financing

The Company is party to the Loan Agreement and certain credit lines with various banks as described in Note 4 of Notes to condensed consolidated financial statements - unaudited in Item 1, "Financial Statements." There were no outstanding borrowings under the Loan Agreement as of August 31, 2017.

New Accounting Pronouncements

Reference is made to Note 1 of Notes to condensed consolidated financial statements - unaudited in Item 1, "Financial Statements," for information concerning recent accounting pronouncements since the filing of the Company's Annual Report.

Forward Looking Statements

This Quarterly Report on Form 10-Q contains forward-looking statements. Additional written and oral forward-looking statements may be made by the Company from time to time in Securities and Exchange Commission ("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, plans, ecommerce and digital initiatives, new product introductions, strategies, new education standards, goals, revenues, improved efficiencies, general costs, manufacturing costs, medical costs, potential cost savings, wage and 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 the 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.



## SCHOLASTIC CORPORATION

## Item 3. Quantitative and Qualitative Disclosures about Market Risk

The Company conducts its business in various foreign countries, and as such, its cash flows and earnings are subject to fluctuations from changes in foreign currency exchange rates. The Company sells products from its domestic operations to its foreign subsidiaries, creating additional currency risk. The Company manages its exposures to this market risk through internally established procedures and, when deemed appropriate, through the use of short-term forward exchange contracts, which were not significant as of August 31, 2017. The Company does not enter into derivative transactions or use other financial instruments for trading or speculative purposes.

Market risks relating to the Company's operations result primarily from changes in interest rates in its variable-rate borrowings. The Company is subject to the risk that market interest rates and its cost of borrowing will increase and thereby increase the interest charged under its variable-rate debt.

Additional information relating to the Company's outstanding financial instruments is included in Note 4 of Notes to condensed consolidated financial statements - unaudited in Item 1, "Financial Statements."

The following table sets forth information about the Company's debt instruments as of August 31, 2017:

(\$ amounts in millions)	Fiscal Year Maturity						Total	Fair Value @ 08/31/2017
	2018 <sup>(1)</sup>	2019	2020	2021	2022	Thereafter		
Debt Obligations								
Lines of Credit and current portion of long-term debt	\$12.0	\$ —	\$ —	\$ —	\$ —	\$ —	—\$12.0	\$ 12.0
Average interest rate	3.8	%	—	—	—	—		

<sup>(1)</sup> Fiscal 2018 includes the remaining nine months of the current fiscal year ending May 31, 2018.



SCHOLASTIC CORPORATION

Item 4. Controls and Procedures

The Chief Executive Officer and the Chief Financial Officer of the Corporation, after conducting an evaluation, together with other members of the Company's management, of the effectiveness of the design and operation of the Corporation's disclosure controls and procedures as of August 31, 2017, have concluded that the Corporation's disclosure controls and procedures were effective to ensure that information required to be disclosed by the Corporation in its reports filed or submitted under the Securities Exchange Act of 1934 is recorded, processed, summarized, and reported within the time periods specified in the rules and forms of the SEC and accumulated and communicated to members of the Company's management, including the Chief Executive Officer and Chief Financial Officer, to allow timely decisions regarding required disclosure. There was no change in the Corporation's internal control over financial reporting that occurred during the quarter ended August 31, 2017 that has materially affected, or is reasonably likely to materially affect, the Corporation's internal control over financial reporting.

## PART II – OTHER INFORMATION

## SCHOLASTIC CORPORATION

## Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

The following table provides information with respect to repurchases of shares of Common Stock by the Corporation during the three months ended August 31, 2017:

## Issuer Purchases of Equity Securities

(Dollars in millions, except per share amounts)

Period	Total number of shares purchased	Average price paid per share	Total number of shares purchased as part of publicly announced plans or programs	Maximum number of shares (or approximate dollar value) that may yet be purchased under the plans or programs <sup>(i)</sup>
June 1, 2017 through June 30, 2017	—	\$ —	—	\$ 38.6
July 1, 2017 through July 31, 2017	5,000	\$ 41.00	5,000	\$ 38.4
August 1, 2017 through August 31, 2017	114,446	\$ 39.05	114,446	\$ 33.9
Total	119,446	\$ 39.13	119,446	\$ 33.9

(i) Represents the remaining amount under the current \$50 million Board authorization for Common share repurchases announced on July 22, 2015, which is available for further repurchases, from time to time as conditions allow, on the open market or through negotiated private transactions.

SCHOLASTIC CORPORATION

Item 6. Exhibits

Exhibits:

- 10.1 Scholastic Corporation 2017 Outside Directors Stock Incentive Plan.
- 10.2 Form of Non-Qualified Stock Option Agreement under the Scholastic Corporation 2017 Outside Directors Stock Incentive Plan.
- 10.3 Form of Restricted Stock Unit Agreement under the Scholastic Corporation 2017 Outside Directors Stock Incentive Plan.
- 31.1 Certification of the Chief Executive Officer of Scholastic Corporation filed pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 31.2 Certification of the Chief Financial Officer of Scholastic Corporation filed pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 32 Certifications of the Chief Executive Officer and Chief Financial Officer of Scholastic Corporation furnished pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- 101.INS XBRL Instance Document
- 101.SCH XBRL Taxonomy Extension Schema Document
- 101.CAL XBRL Taxonomy Extension Calculation Document
- 101.DEF XBRL Taxonomy Extension Definitions Document
- 101.LAB XBRL Taxonomy Extension Labels Document
- 101.PRE XBRL Taxonomy Extension Presentation Document

SCHOLASTIC CORPORATION  
 QUARTERLY REPORT ON FORM 10-Q, DATED AUGUST 31, 2017  
 Exhibits Index

Exhibit Number	Description of Document
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32	Certifications of the Chief Executive Officer and Chief Financial Officer of Scholastic Corporation furnished pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101.INS	XBRL Instance Document *
101.SCH	XBRL Taxonomy Extension Schema Document *
101.CAL	XBRL Taxonomy Extension Calculation Document *
101.DEF	XBRL Taxonomy Extension Definitions Document *
101.LAB	XBRL Taxonomy Extension Labels Document *
101.PRE	XBRL Taxonomy Extension Presentation Document *

\* In accordance with Regulation S-T, the XBRL-related information in Exhibit 101 to this Quarterly Report on Form 10-Q shall be deemed to be “furnished” and not “filed.”

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

SCHOLASTIC CORPORATION  
SIGNATURES

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

SCHOLASTIC CORPORATION  
(Registrant)

Date:

September  
By: /s/ Richard Robinson  
21,  
2017

Richard Robinson  
Chairman of the Board,  
President and Chief  
Executive Officer

Date:

September  
By: /s/ Maureen O'Connell  
21,  
2017

Maureen O'Connell  
Executive Vice President,  
Chief Administrative Officer  
and Chief Financial Officer  
(Principal Financial Officer)