SCHOLASTIC CORP
Form 10-Q
March 29, 2013

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 February 28, 2013 Commission File No. 000-19860

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

Delaware	**13-3385513**
(State or other jurisdiction of incorporation or organization)	(IRS Employer Identification No.)
557 Broadway, New York, New York	**10012**
(Address of principal executive offices)	(Zip Code)

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

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

Indicate by check mark whether the registrant has submitted electronically 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 x No o

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

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

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

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

Title of each class	Number of shares outstanding as of February 28, 2013
Common Stock, $.01 par value	30,239,455
Class A Stock, $.01 par value	1,656,200

SCHOLASTIC CORPORATION
FORM 10-Q FOR THE QUARTERLY PERIOD ENDED FEBRUARY 28, 2013
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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		Nine months ended	
	February 28, 2013	**February 29, 2012**	**February 28, 2013**	**February 29, 2012**
Revenues	**$ 380.5**	**$ 467.0**	**$ 1,290.3**	**$ 1,470.3**
Operating costs and expenses:				
Cost of goods sold (exclusive of depreciation and amortization)	191.1	219.6	605.6	665.7
Selling, general and administrative expenses (exclusive of depreciation and amortization)	200.6	242.5	609.7	656.1
Depreciation and amortization	16.5	16.0	49.3	46.6
Loss on leases and asset impairments		0.8		7.0
Total operating costs and expenses	408.2	478.9	1,264.6	1,375.4
Operating income (loss)	**(27.7)**	**(11.9)**	**25.7**	**94.9**
Other income (expense)	0.0	0.0	0.0	0.0
Interest expense, net	4.1	3.9	11.5	11.7
Earnings (loss) from continuing operations before income taxes	**(31.8)**	**(15.8)**	**14.2**	**83.2**
Provision (benefit) for income taxes	(11.7)	(5.9)	4.4	34.9
Earnings (loss) from continuing operations	**(20.1)**	**(9.9)**	**9.8**	**48.3**
Earnings (loss) from discontinued operations, net of tax	**(0.0)**	**(0.4)**	**(0.2)**	**(2.9)**
Net income (loss)	**$ (20.1)**	**$ (10.3)**	**$ 9.6**	**$ 45.4**
Basic and diluted earnings (loss) per Share of Class A and Common Stock				
Basic:				
Earnings (loss) from continuing operations	$ (0.63)	$ (0.32)	$ 0.31	$ 1.54
Earnings (loss) from discontinued operations, net of tax	$ (0.00)	$ (0.01)	$ (0.01)	$ (0.09)
Net income (loss)	$ (0.63)	$ (0.33)	$ 0.30	$ 1.45
Diluted:				
Earnings (loss) from continuing operations	$ (0.63)	$ (0.32)	$ 0.30	$ 1.52
Earnings (loss) from discontinued operations, net of tax	$ (0.00)	$ (0.01)	$ (0.01)	$ (0.09)
Net income (loss)	$ (0.63)	$ (0.33)	$ 0.29	$ 1.43

Dividends declared per Class A and Common Share	$ 0.125	$ 0.125	$ 0.375	$ 0.325

See accompanying notes

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

	Three months ended		Nine months ended	
	February 28, 2013	February 29, 2012	February 28, 2013	February 29, 2012
Net income (loss)	$ (20.1)	$ (10.3)	$ 9.6	$ 45.4
Other comprehensive income (loss), net:				
Foreign currency translation adjustments	(5.2)	3.7	1.9	(2.2)
Pension and post-retirement adjustments:				
Amortization of prior service credit	(0.1)	(0.2)	(0.3)	(0.5)
Amortization of unrecognized gains and losses included in net periodic cost	0.8	1.1	3.9	4.2
Total other comprehensive income (loss)	$ (4.5)	$ 4.6	$ 5.5	$ 1.5
Comprehensive income (loss)	$ (24.6)	$ (5.7)	$ 15.1	$ 46.9

See accompanying notes

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

	February 28, 2013	May 31, 2012	February 29, 2012
ASSETS			
Current Assets:			
Cash and cash equivalents	$ 196.7	$ 194.9	$ 111.8
Accounts receivable, net	196.4	314.1	271.5
Inventories, net	352.5	295.3	397.2
Deferred income taxes	71.4	71.4	56.5
Prepaid expenses and other current assets	76.6	47.2	75.4
Current assets of discontinued operations	7.0	7.0	9.3
Total current assets	**900.6**	**929.9**	**921.7**
Property, plant and equipment, net	323.6	327.2	326.2
Prepublication costs	139.7	125.8	119.8
Royalty advances, net	36.8	34.8	36.7
Production costs	2.0	1.6	7.4
Goodwill	158.0	157.7	162.9
Other intangibles	15.0	16.7	16.6
Noncurrent deferred income taxes	42.5	42.3	20.2
Other assets and deferred charges	35.3	34.3	34.7
Total assets	**$ 1,653.5**	**$ 1,670.3**	**$ 1,646.2**
LIABILITIES AND STOCKHOLDERS EQUITY			
Current Liabilities:			
Lines of credit, short-term debt and current portion of long-term debt	$ 1.8	$ 6.5	$ 12.6
Capital lease obligations	0.4	1.0	1.1
Accounts payable	157.9	119.6	160.1
Accrued royalties	66.3	92.7	84.4
Deferred revenue	81.4	47.1	78.5
Other accrued expenses	175.4	233.5	209.1
Current liabilities of discontinued operations	1.6	2.1	1.2
Total current liabilities	**484.8**	**502.5**	**547.0**
Noncurrent Liabilities:			
Long-term debt	153.0	152.8	152.7
Capital lease obligations	57.2	56.4	56.1
Other noncurrent liabilities	112.7	128.3	105.1
Total noncurrent liabilities	**322.9**	**337.5**	**313.9**

Commitments and Contingencies:

Stockholders Equity:			
Preferred Stock, $1.00 par value			
Class A Stock, $.01 par value	0.0	0.0	0.0
Common Stock, $.01 par value	0.4	0.4	0.4
Additional paid-in capital	582.0	583.0	585.0
Accumulated other comprehensive income (loss)	(68.7)	(74.2)	(52.4)
Retained earnings	721.4	723.9	670.9
Treasury stock at cost	(389.3)	(402.8)	(418.6)
Total stockholders equity	845.8	830.3	785.3
Total liabilities and stockholders equity	**$ 1,653.5**	**$ 1,670.3**	**$ 1,646.2**

See accompanying notes

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

	Nine months ended February 28, 2013	Nine months ended February 29, 2012
Cash flows - operating activities:		
Net income (loss)	$ 9.6	$ 45.4
Earnings (loss) from discontinued operations, net of tax	(0.2)	(2.9)
Earnings (loss) from continuing operations	9.8	48.3
Adjustments to reconcile earnings from continuing operations to net cash provided by (used in) operating activities of continuing operations:		
Provision for losses on accounts receivable	3.9	7.8
Provision for losses on inventory	16.7	18.0
Provision for losses on royalty advances	3.9	4.3
Amortization of prepublication and production costs	36.5	36.4
Depreciation and amortization	50.4	46.6
Loss on leases		6.2
Non-cash writeoff related to impairment		0.8
Stock-based compensation	5.2	10.0
Deferred income taxes	0.1	0.1
Equity investment income	(1.5)	(1.9)
Changes in assets and liabilities:		
Accounts receivable	118.6	(57.6)
Inventories	(71.7)	(107.2)
Other current assets	(27.1)	(18.2)
Deferred promotion costs	(2.1)	(1.7)
Royalty advances	(5.9)	(5.8)
Accounts payable	36.8	38.3
Other accrued expenses	(58.2)	38.2
Accrued royalties	(26.9)	49.1
Deferred revenue	34.2	25.4
Pension and post-retirement liability	(11.5)	(6.0)
Other, net	(3.3)	3.0
Total adjustments	98.1	85.8
Net cash provided by (used in) operating activities of continuing operations	107.9	134.1
Net cash provided by (used in) operating activities of discontinued operations	(0.7)	(1.3)
Net cash provided by (used in) operating activities	107.2	132.8
Cash flows - investing activities:		
Prepublication and production expenditures	(51.3)	(39.7)
Additions to property, plant and equipment	(43.5)	(33.0)

Acquisition-related payments (net of cash received of $0.0 and $2.5, respectively)	(0.1)	(5.3)
Net cash provided by (used in) investing activities of continuing operations	(94.9)	(78.0)
Net cash provided by (used in) investing activities	(94.9)	(78.0)

See accompanying notes

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

	Nine months ended	
	February 28, 2013	**February 29, 2012**
Cash flows - financing activities:		
Repayment of term loan		(50.2)
Borrowings under lines of credit	21.3	78.8
Repayment of lines of credit	(25.9)	(65.0)
Repayment of capital lease obligations	(0.8)	(0.5)
Reacquisition of common stock	(5.8)	(5.6)
Proceeds pursuant to stock-based compensation plans	12.0	3.5
Payment of dividends	(11.9)	(9.3)
Other	(0.4)	0.7
Net cash provided by (used in) financing activities of continuing operations	(11.5)	(47.6)
Net cash provided by (used in) financing activities	(11.5)	(47.6)
Effect of exchange rate changes on cash and cash equivalents	1.0	(0.7)
Net increase (decrease) in cash and cash equivalents	1.8	6.5
Cash and cash equivalents at beginning of period	194.9	105.3
Cash and cash equivalents at end of period	**$ 196.7**	**$ 111.8**

See accompanying notes

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

1. Basis of Presentation

Principles of consolidation

The accompanying condensed consolidated financial statements include the accounts of Scholastic Corporation (the Corporation) and all wholly-owned and majority-owned subsidiaries (collectively, Scholastic or the Company). Intercompany transactions are eliminated in consolidation. 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, comprehensive income, results of operations 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, 2012 (the Annual Report).

The Company s fiscal year is not a calendar year. Accordingly, references in this document to fiscal 2012 relate to the twelve-month period ended May 31, 2012.

Segment

The Company determined that a software business previously reported in the *Media, Licensing and Advertising* segment should be reported in the *Children s Book Publishing and Distribution* segment consistent with changes in the Company s internal reporting structure. All prior periods reflect this change.

Reclassifications

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

Other Comprehensive Income (Loss)

The Company reported net amortization expense of prior service and gains and losses for pension and post-retirement benefit plans in Selling, general and administrative expenses of $0.7 and $3.6 for the three and nine months ended February 28, 2013, respectively, and $0.9 and $3.7 for the three and nine months ended February 29, 2012, respectively. These amounts had previously been recognized as a component of accumulated other comprehensive income.

Discontinued Operations

The Company closed or sold several operations during fiscal 2009, fiscal 2010 and fiscal 2012, and presently holds for sale one facility. All of these businesses are classified as discontinued operations in the Company s financial statements. See Note 2, Discontinued Operations, for additional information.

Seasonality

The Company s school-based book clubs, school-based book fairs and most of its magazines 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 book club and book fair revenues are greatest in the second and fourth quarters of the fiscal year, while revenues from the sale of instructional materials and educational technology products and services are highest in the first and fourth quarters. 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 ongoing basis, the Company evaluates the adequacy of its reserves and the estimates used in calculations,

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

including, but not limited to:

- Accounts receivable, returns and allowances
- Pension and other post-retirement obligations
- Uncertain tax positions
- Inventory reserves
- Gross profits for book fair operations during interim periods
- Sales taxes
- Royalty advance reserves
- Customer reward programs
- Impairment testing for goodwill, intangibles and other long-lived assets

Restricted Cash

The condensed consolidated balance sheets include restricted cash of $1.6, $1.0 and $1.6 at February 28, 2013, May 31, 2012 and February 29, 2012, respectively, which is reported in Other current assets.

New Accounting Pronouncements

In February 2013, the Financial Accounting Standards Board (the FASB) issued an update to the authoritative guidance related to the reporting of amounts reclassified out of accumulated other comprehensive income. This new requirement about presenting information about amounts reclassified out of accumulated other comprehensive income and their corresponding effect on net income will present, in one place, information about significant amounts reclassified and, in some cases, cross-references to related footnote disclosures. The disclosure amendments in this update are effective prospectively for reporting periods beginning after December 15, 2012 and early adoption is permitted. The Company is evaluating the impact of this update on its consolidated financial position, results of operations and related disclosures, and will adopt this guidance in the fourth quarter of fiscal 2013.

In July 2012, the FASB issued an update to the authoritative guidance related to the impairment testing of indefinite-lived intangible assets. Similar to the guidance for goodwill impairment testing, companies will have the option to first perform a qualitative assessment to determine whether it is more likely than not that the fair value of the indefinite-lived intangible asset is less than its carrying value. The guidance provides companies with a revised list of examples of events and circumstances to consider, in their totality, to determine whether it is more likely than not that the fair value of the asset is less than its carrying amount. If a company concludes that this is the case, the company is required to perform the quantitative impairment test by comparing the fair value with the carrying value. Otherwise, a company can skip the quantitative test. Companies are not required to perform the qualitative assessment and are permitted to skip the qualitative assessment for any indefinite-lived asset in any period and proceed directly to the quantitative impairment test. The company may resume performing the qualitative assessment in any subsequent period. The amendments are effective for annual and interim impairment tests performed for fiscal years beginning after September 15, 2012. Early adoption is permitted. The Company is evaluating the impact of this update on its consolidated financial position and results of operations.

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

2. Discontinued Operations

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

The following table summarizes the operating results of the discontinued operations for the periods indicated:

	Three months ended		Nine months ended	
	February 28, 2013	February 29, 2012	February 28, 2013	February 29, 2012
Revenues	$ 0.0	$ 0.0	$ 0.0	$ 0.1
Non-cash impairment				(0.9)
Earnings (loss) before income taxes	0.1	(0.6)	(0.3)	(4.0)
Income tax benefit (expense)	(0.1)	0.2	0.1	1.1
Earnings (loss) from discontinued operations, net of tax	**$ 0.0**	**$ (0.4)**	**$ (0.2)**	**$ (2.9)**

The following table sets forth the assets and liabilities of the discontinued operations included in the condensed consolidated balance sheets of the Company as of the dates indicated:

	February 28, 2013	May 31, 2012	February 29, 2012
Property and plant	$ 7.0	$ 7.0	$ 9.3
Current assets of discontinued operations	**$ 7.0**	**$ 7.0**	**$ 9.3**
Accrued expenses and other current liabilities	1.6	2.1	1.2
Current liabilities of discontinued operations	**$ 1.6**	**$ 2.1**	**$ 1.2**

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

3. Segment Information

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

Children s Book Publishing and Distribution operates as an integrated business which includes the publication and distribution of children s books and other products in the United States through school-based book clubs and book fairs, ecommerce and the trade channel. This segment is comprised of three operating segments.

Educational Technology and Services includes the production and distribution to schools of curriculum-based learning technology and materials for grades pre-kindergarten to 12 in the United States, together with related implementation and assessment services and school consulting services. This segment is comprised of one operating segment.

Classroom and Supplemental Materials Publishing includes the publication and distribution to schools and libraries of children s books, classroom magazines, supplemental classroom materials 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.

Media, Licensing and Advertising includes the production and/or distribution of digital media, consumer promotions and merchandising and advertising revenue, including sponsorship programs. 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 two operating segments.

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

	Children s Book Publishing and Distribution[1] [2]	Educational Technology and Services[1]	Classroom and Supplemental Materials Publishing[1]	Media, Licensing and Advertising[1] [2]	Overhead[1] [3]	Total Domestic	International[1]	Total
Three months ended February 28, 2013								
Revenues	$ 189.4	$ 41.8	$ 43.2	$ 11.7	$	$ 286.1	$ 94.4	$ 380.5
Bad debt expense	(1.6)	0.5				(1.1)	0.5	(0.6)
Depreciation and amortization[4]	4.0	0.3	0.3	0.1	10.3	15.0	1.5	16.5
Amortization[5]	3.7	5.5	2.1	1.0		12.3	0.4	12.7
Loss on leases and asset impairments								
Segment operating income (loss)	(10.1)	(3.5)	(0.2)	(2.3)	(13.6)	(29.7)	2.0	(27.7)
Expenditures for long-lived assets including royalty advances	11.9	10.6	2.7	1.7	7.6	34.5	3.5	38.0
Three months ended February 29, 2012								
Revenues	$ 268.8	$ 40.0	$ 38.2	$ 14.4	$	$ 361.4	$ 105.6	$ 467.0
Bad debt expense	1.6	0.3	0.4			2.3	0.8	3.1
Depreciation and amortization[4]	4.4	0.2	0.3		9.1	14.0	2.0	16.0
Amortization[5]	2.8	5.3	1.8	1.5		11.4	0.6	12.0
Loss on leases and asset impairments	0.5					0.5	0.3	0.8
Segment operating income (loss)	12.2	(5.9)	(3.4)	(1.2)	(17.9)	(16.2)	4.3	(11.9)
Expenditures for long-lived assets including royalty advances	11.7	6.7	4.9	1.3	9.4	34.0	5.1	39.1

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

	Children s Book Publishing and Distribution[1] [2]	Educational Technology and Services[1]	Classroom and Supplemental Materials Publishing[1]	Media, Licensing and Advertising[1] [2]	Overhead[1] [3]	Total Domestic	International[1]	Total
Nine months ended February 28, 2013								
Revenues	$ 610.6	$ 174.0	$ 134.3	$ 43.1	$	$ 962.0	$ 328.3	$ 1,290.3
Bad debt expense		0.6	1.2			1.8	2.1	3.9
Depreciation and amortization[4]	12.1	0.9	1.0	0.3	31.0	45.3	4.0	49.3
Amortization[5]	11.0	16.2	5.7	2.3		35.2	1.3	36.5
Loss on leases and asset impairments								
Segment operating income (loss)	3.6	26.6	4.6	(0.9)	(37.7)	(3.8)	29.5	25.7
Segment assets at 2/28/2013	549.0	177.1	159.9	27.2	434.4	1,347.6	298.9	1,646.5
Goodwill at 2/28/2013	54.3	22.7	65.4	5.4		147.8	10.2	158.0
Expenditures for long-lived assets including royalty advances	39.1	28.0	6.9	4.8	25.9	104.7	8.6	113.3
Long-lived assets at 2/28/2013	170.2	111.8	90.2	13.6	241.5	627.3	68.4	695.7
Nine months ended February 29, 2012								
Revenues	$ 739.3	$ 202.0	$ 142.6	$ 49.0	$	$ 1,132.9	$ 337.4	$ 1,470.3
Bad debt expense	3.2	1.0	1.3			5.5	2.3	7.8
Depreciation and amortization[4]	11.9	0.9	0.8	0.4	27.7	41.7	4.9	46.6
Amortization[5]	9.0	15.6	4.9	5.1		34.6	1.8	36.4
Loss on leases and asset impairments	0.5				6.2	6.7	0.3	7.0
Segment operating income (loss)	70.7	47.5	9.0	(3.3)	(59.8)	64.1	30.8	94.9
Segment assets at 2/29/2012	597.1	156.6	153.3	38.2	397.4	1,342.6	294.3	1,636.9
Goodwill at 2/29/2012	54.3	22.7	70.5	5.4		152.9	10.0	162.9
Expenditures for long-lived assets including royalty advances	32.8	18.0	9.3	5.3	22.0	87.4	9.0	96.4
Long-lived assets at 2/29/2012	173.7	98.5	88.3	19.7	242.8	623.0	67.6	690.6

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

(1) *As discussed under Discontinued Operations in Note 1, Basis of Presentation, the Company closed or sold several operations during fiscal 2009, fiscal 2010 and fiscal 2012, and presently holds for sale one facility. All of these businesses are classified as discontinued operations in the Company s financial statements and, as such, are not reflected in this table.*

(2) *As discussed under Segment in Note 1, a business previously reported in the Media, Licensing and Advertising segment is now included in the Children s Book Publishing and Distribution segment.*

(3) *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.*

(4) *Includes depreciation of property, plant and equipment and amortization of intangible assets.*

(5) *Includes amortization of prepublication and production costs.*

4. Debt

The following table summarizes debt as of the dates indicated:

	Carrying Value	Fair Value	Carrying Value	Fair Value	Carrying Value	Fair Value
	February 28, 2013		**May 31, 2012**		**February 29, 2012**	
Lines of Credit	$ 1.8	$ 1.8	$ 6.5	$ 6.5	$ 12.6	$ 12.6
Loan Agreement:						
Revolving Loan						
Term Loan						
5% Notes due 2013, net of discount	153.0	153.0	152.8	155.4	152.7	158.5
Total debt	**$ 154.8**	**$ 154.8**	**$ 159.3**	**$ 161.9**	**$ 165.3**	**$ 171.1**
Less lines of credit, short-term debt and current portion of long-term debt	(1.8)	(1.8)	(6.5)	(6.5)	(12.6)	(12.6)
Total long-term debt	**$ 153.0**	**$ 153.0**	**$ 152.8**	**$ 155.4**	**$ 152.7**	**$ 158.5**
Lines of Credit weighted average interest rate	**8.9%**		**5.3%**		**4.7%**	

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The carrying value of the Company s short-term debt approximates its fair value. Fair values of the Notes were estimated based on market quotes, where available, or dealer quotes.

The following table sets forth the maturities of the Company s debt obligations as of February 28, 2013, for the twelve-month period ending February 28,

2014	$	1.8
2015	$	
2016	$	
2017	$	
2018	$	153.0
Total debt	**$**	**154.8**

Loan Agreement

On June 1, 2007, Scholastic Corporation and Scholastic Inc. (each, a Borrower and together, the Borrowers) entered into a $525.0 credit facility with certain banks (the Loan Agreement), consisting of a $325.0 revolving credit component (the Revolving Loan) and a $200.0 amortizing term loan component (the Term Loan), with the ability to increase the aggregate Revolving Loan commitments of the lenders by up to an additional $150.0. The Loan Agreement was amended on August 16, 2010, on October 25, 2011 and most recently on December 5, 2012. The amendment on December 5, 2012 served to, among other things, (i) increase the Revolving Loan from $325.0 to $425.0 (with the continued ability to increase the aggregate Revolving Loan commitments of the lenders by up to an additional $150.0), (ii) extend the maturity of the $425.0 Revolving Loan to December 5, 2017 from June 1, 2014, (iii) amend a covenant in the Loan Agreement to permit certain sales, transfers and dispositions of assets by either Borrower or any subsidiary to any other Borrower or subsidiary and (iv) amend a covenant in the Loan Agreement to permit transactions between or among the Company and its wholly-owned subsidiaries not involving any other affiliates. Additionally, this amendment added certain lenders to the Loan Agreement and other lenders exited the Loan Agreement with no further obligation. The Loan Agreement also provides for the payment of a facility fee as described below.

The Revolving Loan allows the Company to borrow, repay or prepay and reborrow at any time prior to the stated maturity date, and the proceeds may be used for general corporate purposes, including financing for acquisitions and share repurchases.

Interest on the Revolving Loan 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 Revolving Loan 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 0.500% or (iii) the Eurodollar Rate for a one month interest period plus 1% plus an applicable spread ranging from 0.18% 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 1.18% to 1.60%, as determined by the Company s prevailing consolidated debt to total capital ratio.

At February 28, 2013, the indicated spread on Base Rate Advances was 0.18% and the indicated spread on Eurodollar Rate Advances was 1.18%, 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 ranging from 0.20% to 0.40% per annum based upon the Company s prevailing consolidated debt to total capital ratio. At February 28, 2013, the facility fee rate was 0.20%. There were no outstanding borrowings under the Revolving Loan as of February 28, 2013.

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As of February 28, 2013, the Company had open standby letters of credit totaling $6.6, including $1.4 under the Loan Agreement.

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 February 28, 2013, the Company was in compliance with these covenants.

Lines of Credit

As of February 28, 2013, the Company s domestic credit lines available under unsecured money market bid rate credit lines totaled $20.0. There were no outstanding borrowings under these credit lines at February 28, 2013, May 31, 2012 and February 29, 2012. 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 364 days. These credit lines may be renewed, if requested by the Company, at the option of the lender.

As of February 28, 2013, the Company had various local currency credit lines, with maximum available borrowings in amounts equivalent to $27.1, underwritten by banks primarily in the United States, Canada and the United Kingdom. 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. Borrowings and weighted average interest rates for these lines of credit are presented in the table above. The increased weighted average interest rate of 8.9% as of February 28, 2013 was higher due to local borrowing interest rates in Asia.

5% Notes due 2013

In April 2003, Scholastic Corporation issued $175.0 of 5% Notes (the 5% Notes). The 5% Notes are senior unsecured obligations that mature on April 15, 2013. Interest on the 5% Notes is payable semi-annually on April 15 and October 15 of each year through maturity. The Company may at any time redeem all or a portion of the 5% Notes at a redemption price (plus accrued interest to the date of the redemption) equal to the greater of (i) 100% of the principal amount, or (ii) the sum of the present values of the remaining scheduled payments of principal and interest discounted to the date of redemption.

As noted above under Loan Agreement, the Company amended the terms of the Revolving Loan to extend the maturity date to December 5, 2017. The Company has the ability to use a portion of this credit facility to fully redeem the 5% Notes due April 15, 2013 and intends to draw on this credit facility for this purpose. Accordingly, the balance of the 5% Notes is excluded from current liabilities and classified as long-term debt on the Company s condensed consolidated balance sheets at February 28, 2013 and May 31, 2012.

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.

Grolier Limited is an indirect subsidiary of Scholastic Corporation, located in the United Kingdom, which ceased operations in fiscal 2008 and the operations of which are included in discontinued operations. The Company is currently in the process of settling a Grolier Limited pension plan in effect at the time it ceased operations and is evaluating the potential pension liabilities under the plan relating to the status of the plan as a defined contribution or a defined benefit plan in the context of the conversion of the plan from a defined benefit to a defined contribution plan in 1986. Based on the information currently available to it, the Company does not expect to incur any additional material liability in resolving this issue and settling the plan.

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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 dates indicated:

	Three months ended		Nine months ended	
	February 28, 2013	**February 29, 2012**	**February 28, 2013**	**February 29, 2012**
Net income (loss) attributable to Class A and Common Shares	**$ (20.1)**	**$ (10.3)**	**$ 9.6**	**$ 45.4**
Earnings (loss) from continuing operations attributable to Class A and Common Shares	(20.1)	(9.9)	9.8	48.3
Earnings (loss) from discontinued operations attributable to Class A and Common Shares, net of tax	(0.0)	(0.4)	(0.2)	(2.9)
Earnings attributable to participating securities			0.1	0.3
Weighted average Shares of Class A Stock and Common Stock outstanding for basic earnings (loss) per share (in millions)	32.0	31.1	31.8	31.1
Dilutive effect of Class A Stock and Common Stock potentially issuable pursuant to stock-based compensation plans (in millions)	*	*	0.6	0.5
Adjusted weighted average Shares of Class A Stock and Common Stock outstanding for diluted earnings (loss) per share (in millions)	32.0	31.1	32.4	31.6
Potentially dilutive shares outstanding pursuant to stock-based compensation plans (in millions)	2.4	3.7	2.0	4.3
Earnings (loss) per share of Class A Stock and Common Stock:				
Basic earnings (loss) per share:				
Earnings (loss) from continuing operations	**$ (0.63)**	**$ (0.32)**	**$ 0.31**	**$ 1.54**
Earnings (loss) from discontinued operations, net of tax	**$ (0.00)**	**$ (0.01)**	**$ (0.01)**	**$ (0.09)**
Net income (loss)	**$ (0.63)**	**$ (0.33)**	**$ 0.30**	**$ 1.45**
Diluted earnings (loss) per share:				
Earnings (loss) from continuing operations	**$ (0.63)**	**$ (0.32)**	**$ 0.30**	**$ 1.52**
Earnings (loss) from discontinued operations, net of tax	**$ (0.00)**	**$ (0.01)**	**$ (0.01)**	**$ (0.09)**
Net income (loss)	**$ (0.63)**	**$ (0.33)**	**$ 0.29**	**$ 1.43**

* In the three months ended February 28, 2013 and February 29, 2012, the Company experienced a loss from continuing operations and therefore did not report any dilutive share impact.

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

	February 28, 2013	February 29, 2012
Options outstanding pursuant to stock-based compensation plans (in millions)	4.2	5.5

In periods of Net loss, dilutive earnings per share are not reported as the effect of the potentially dilutive shares becomes anti-dilutive.

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.

A portion of the Company s restricted stock units (RSUs) which are granted to employees participate in earnings through cumulative non-forfeitable 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 February 28, 2013, $25.6 remains available for future purchases of common shares under the current repurchase authorization of the Board of Directors. See Note 12, Treasury Stock, for a more complete description of the Company s share buy-back program.

7. Goodwill and Other Intangibles

Goodwill and other intangible assets with indefinite lives are reviewed annually for impairment or more frequently if impairment indicators arise.

The following table summarizes the activity in Goodwill as of the dates indicated:

	February 28, 2013	May 31, 2012	February 29, 2012
Gross beginning balance	$ 178.5	$ 175.0	$ 175.0
Accumulated impairment	(20.8)	(20.8)	(20.8)
Beginning balance	$ 157.7	$ 154.2	$ 154.2
Additions due to acquisition		2.7	7.8
Foreign currency translation	0.1	0.0	0.0
Other	0.2	0.8	0.9
Gross ending balance	$ 178.8	$ 178.5	$ 183.7
Accumulated impairment	(20.8)	(20.8)	(20.8)
Ending balance	**$ 158.0**	**$ 157.7**	**$ 162.9**

On February 8, 2012, the Company acquired the business and certain assets of Weekly Reader®, a publisher of weekly educational classroom magazines designed for children in grades Pre-K 12, for $2.0 in cash and $4.8 in assumed liabilities, which have been fulfilled by the Company.

The Company utilized Level 3 fair value measurement inputs including internally-developed discounted cash flow forecasts and market comparisons of royalty rates to determine the fair value of the assets acquired and the amount to be allocated to goodwill. As a result, the Company recognized $1.4 of goodwill and $5.4 of intangible assets. The results of operations of this business subsequent to the acquisition date are included in the *Classroom and Supplemental Materials Publishing* segment.

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On January 3, 2012, the Company acquired Learners Publishing, a Singapore-based publisher of supplemental learning materials for English-Language Learners, for $3.0, net of cash acquired. The Company utilized Level 3 fair value measurement inputs, using its own assumptions, including internally-developed discounted cash flow forecasts, to determine the fair value of the assets acquired and the amount of goodwill to be allocated to the Learners Publishing business. As a result of this transaction, the Company recorded $1.5 of goodwill. The results of operations of this business subsequent to the acquisition date are included in the *International* segment.

The Company assesses goodwill 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 reduced earnings, changes in market conditions, near and long-term demand for the Company s products and other relevant factors. Goodwill of $64.0 is attributed to a reporting unit (Classroom and Community Group) within the *Classroom and Supplemental Materials Publishing* segment. During the third quarter of fiscal 2013, the Company determined that this reporting unit had impairment indicators. The Company performed a valuation of this reporting unit and determined that the fair value exceeds the carrying value by greater than 20% as of January 31, 2013. The Company employed Level 3 valuation measures, including expected discounted cash flow analysis and market comparisons. Cash flow forecasts and other assumptions were developed consistent with the internal planning and budgeting processes of the reporting unit. A discount rate of 16% was employed for the discounted cash flow analysis and a factor of 4.5 times EBITDA was used to compare to similar public companies. The discount rate and EBITDA multiples utilized reflect risks specific to the reporting unit, including forecast risk and product diversity risk. Using a discount rate of 18% combined with a multiple of 3.8 times EBITDA would not result in an impairment based upon the valuation methodology employed.

The following table summarizes the activity in Total other intangibles subject to amortization as of the dates indicated:

	February 28, 2013	May 31, 2012	February 29, 2012
Beginning balance - customer lists	$ 4.3	$ 0.7	$ 0.7
Additions due to acquisition	0.1	3.8	
Amortization expense	(0.7)	(0.2)	(0.2)
Foreign currency translation	0.0	0.0	0.0
Customer lists, net of accumulated amortization	$ 3.7	$ 4.3	$ 0.5
Accumulated amortization - customer lists	$ 2.0	$ 1.3	$ 1.3
Beginning balance - other intangibles	$ 10.4	$ 17.3	$ 17.3
Impairment charge		(5.4)	(0.5)
Amortization expense	(1.2)	(1.4)	(1.1)
Other	0.1	(0.1)	
Other intangibles, net of accumulated amortization	$ 9.3	$ 10.4	$ 15.7
Accumulated amortization - other intangibles	$ 11.7	$ 10.5	$ 5.3

Total other intangibles subject to amortization	**$ 13.0**	**$ 14.7**	**$ 16.2**

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Intangible assets with definite lives consist principally of customer lists, covenants not to compete and publishing and trademark rights. Intangible assets with definite lives are amortized over their estimated useful lives. The weighted-average remaining useful lives of all amortizable intangible assets is seven years.

The following table summarizes Total other intangibles amortization expense for the periods indicated:

	Nine months ended	
	February 28, 2013	February 29, 2012
Total other intangibles amortization expense	$ 1.9	$ 1.3

In fiscal 2012, due to declining revenues associated with certain publishing and trademark rights in the *Children s Book Publishing and Distribution* segment, the Company determined that the intangible assets associated with these rights were not fully recoverable and recognized an impairment in amortization expense of $4.9 based upon the difference between the carrying value and the fair value of the assets, and reduced the expected useful life of these assets. The Company employed Level 3 fair value measurement techniques to determine the fair value of these assets, including the relief from royalty method.

The following table summarizes Other intangibles not subject to amortization as of the dates indicated:

	February 28, 2013	May 31, 2012	February 29, 2012
Net carrying value by major class:			
Trademarks and other	$ 2.0	$ 2.0	$ 0.4
Total	**$ 2.0**	**$ 2.0**	**$ 0.4**

8. Investments

The following table summarizes the Company s investments included in Other assets and deferred charges on the Company s condensed consolidated balance sheets as of the dates indicated:

	February 28, 2013	May 31, 2012	February 29, 2012
Cost method investments:			
UK - based	$ 5.4	$ 5.2	$ 5.7
Total cost method investments	$ 5.4	$ 5.2	$ 5.7
Equity method investments:			
UK - based	$ 15.2	$ 15.4	$ 14.0

U.S. - based						1.3
Total equity method investments	$	15.2	$	15.4	$	15.3
Total	**$**	**20.6**	**$**	**20.6**	**$**	**21.0**

The Company owns a non-controlling interest of 15.0% in a book distribution business located in the UK, which is accounted for as a cost-basis investment. The Company s 26.2% non-controlling interest in a children s book publishing business located in the UK is accounted for using the equity method of accounting. In the fourth quarter of fiscal 2012, the Company determined that its equity investment in a children s television programming entity was other-than-temporarily impaired and it recognized an impairment loss of $1.3 in Selling, general and administrative expenses.

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The following table summarizes the Company s Income from equity method investments for the periods indicated:

	Nine months ended	
	February 28, 2013	February 29, 2012
Total equity investment income	$ 1.5	$ 1.9

9. Employee Benefit Plans

The following tables set forth components of the net periodic benefit costs 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.

	Pension Plans Three months ended		Post-Retirement Benefits Three months ended	
	February 28, 2013	February 29, 2012	February 28, 2013	February 29, 2012
Components of net periodic benefit (credit) cost:				
Service cost	$	$	$ 0.0	$ 0.0
Interest cost	1.7	2.1	0.3	0.4
Expected return on assets	(2.6)	(2.7)		
Net amortization of prior service credit			(0.1)	(0.2)
Amortization of (gain) loss	0.5	0.3	0.3	0.9
Net periodic benefit (credit) cost	**$ (0.4)**	**$ (0.3)**	**$ 0.5**	**$ 1.1**

	Pension Plans Nine months ended		Post-Retirement Benefits Nine months ended	
	February 28, 2013	February 29, 2012	February 28, 2013	February 29, 2012
Components of net periodic benefit (credit) cost:				
Service cost	$	$	$ 0.0	$ 0.0
Interest cost	5.2	6.3	1.1	1.4
Expected return on assets	(7.9)	(8.1)		
Net amortization of prior service credit			(0.3)	(0.5)
Amortization of (gain) loss	1.6	1.0	2.2	2.9

Net periodic benefit (credit) cost	**$ (1.1)**	**$ (0.8)**	**$ 3.0**	**$ 3.8**

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 nine months ended February 28, 2013, the Company contributed $6.6 to the U.S. Pension Plan and $0.7 to the UK Pension Plan.

The Company expects, based on actuarial calculations, to contribute cash of approximately $8.8 to the Pension Plans for the fiscal year ending May 31, 2013.

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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		Nine months ended	
	February 28, 2013	**February 29, 2012**	**February 28, 2013**	**February 29, 2012**
Stock option expense	$ 0.4	$ 1.2	$ 2.0	$ 6.0
Restricted stock unit expense	0.6	1.0	2.4	3.6
Management stock purchase plan	0.0	0.0	0.6	0.2
Employee stock purchase plan	0.0	0.0	0.2	0.2
Total stock-based compensation expense	**$ 1.0**	**$ 2.2**	**$ 5.2**	**$ 10.0**

During each of the three and nine-month periods ended February 28, 2013 and February 29, 2012, shares of Common Stock issued by the Corporation pursuant to its stock-based compensation plans were not material.

11. Severance

The table below provides information for Accrued severance included in Other accrued expenses as of the dates indicated:

	February 28, 2013	**May 31, 2012**	**February 29, 2012**
Beginning balance	$ 2.7	$ 1.9	$ 1.9
Accruals	5.3	14.9	12.2
Payments	(5.5)	(14.1)	(12.9)
Ending balance	**$ 2.5**	**$ 2.7**	**$ 1.2**

The Company implemented cost saving initiatives in the current fiscal quarter, recognizing expense of $3.0. The Company expects to incur additional expenses related to these initiatives in the fourth quarter of the current fiscal year. The Company implemented certain cost reduction initiatives during fiscal 2012, and incurred severance expense of $9.3 related to these initiatives. Severance expenses are reported in Selling, general and administrative expenses.

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12. Treasury Stock

The Board of Directors has authorized the Company to repurchase Common Stock, from time to time as conditions allow, on the open market or through negotiated private transactions. During the nine months ended February 28, 2013, the Company repurchased approximately 0.2 million shares on the open market for approximately $5.8 at an average cost of $28.75 per share. The table below represents the remaining Board authorization:

Board Authorization	Amount
September 2010	$ 44.0
Repurchases made from November 2011 through February 2013	(18.4)
Remaining Board authorization as of February 28, 2013	$ 25.6

The Company s repurchase program may be suspended at any time without prior notice.

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13. Fair Value Measurements

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

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

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 5% Notes and its various lines of credit. See Note 4, Debt, for a more complete description of fair value measurements employed. 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 and indefinite-lived intangible assets

Long-lived assets held for sale

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 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.

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The Corporation, 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 Corporation file income tax returns in foreign jurisdictions. The Company is routinely audited by various tax authorities. The Company is currently under audit by the Internal Revenue Service for fiscal years ended May 31, 2007, 2008 and 2009. The Company is currently under audit by New York State for fiscal years ended May 31, 2006, 2007 and 2008 and by New York City for fiscal years ended May 31, 2005, 2006 and 2007. If any of these tax examinations are concluded within the next twelve months, the Company will make any necessary adjustments to its unrecognized tax benefits.

The Company s annual effective tax rate for the fiscal year ending May 31, 2013 is currently expected to be approximately 38%, which reflects a partial reversal of valuation allowances for jurisdictions where the Company will be able to utilize net operating loss carryforwards generated in prior fiscal periods to offset current fiscal year taxable income.

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. Where a liability associated with these examinations and assessments is probable and can be reliably estimated, the Company has made accruals for these matters which are reflected in the Company s condensed consolidated financial statements. The Company made payments of $15.3 for settlement of sales tax audits with two jurisdictions in the current fiscal year.

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. 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 current earnings, and it recognizes the unrealized gain or loss in other current assets or liabilities. An unrealized loss of less than $0.1 and unrealized gains of $0.4 were recognized at February 28, 2013 and February 29, 2012, respectively.

16. Other Accrued Expenses

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

	February 28, 2013	May 31, 2012	February 29, 2012
Accrued payroll, payroll taxes and benefits	$ 46.3	$ 48.1	$ 46.1
Accrued bonus and commissions	16.5	57.3	37.7
Accrued other taxes	26.0	42.8	39.1
Accrued advertising and promotions	39.0	36.1	38.1
Accrued income taxes	6.0	10.2	6.4
Accrued insurance	8.8	8.4	8.5
Other accrued expenses	32.8	30.6	33.2
Total accrued expenses	$ 175.4	$ 233.5	$ 209.1

17. Subsequent Events

On March 20, 2013, the Company announced that the Board of Directors declared a cash dividend of $0.125 per Class A and Common share in respect of the fourth quarter of fiscal 2013. The dividend is payable on June 17, 2013 to stockholders of record on April 30, 2013.

SCHOLASTIC CORPORATION
Item 2. Management s Discussion and Analysis of Financial Condition and Results of Operations (MD&A)

Overview and Outlook

Revenue for the quarter ended February 28, 2013 was $380.5 million, compared to $467.0 million in the prior fiscal year quarter. The third quarter revenue decline primarily reflected significantly lower sales of The Hunger Games trilogy versus the Company s expectations and versus the prior year, when the Company benefited from extraordinarily strong book revenues in advance of the March 2012 film release. Book club sales also declined in the quarter compared to the prior year period. The Company reported a consolidated loss per share of $0.63 versus $0.33 in the prior fiscal year quarter. The decline in net income was largely the result of lower revenues, especially from lower Hunger Games sales, as well as the Company s planned increase in investments in digital initiatives, partially offset by cost-cutting measures implemented during the quarter. The third quarter is a seasonally lower revenue quarter for Scholastic and typically generates a net loss.

During the third quarter, the Company implemented cost savings measures to help offset the continued pressures on operating income and expects to implement additional cost savings measures in the fourth quarter of the current fiscal year. As previously announced, for fiscal 2013 the Company now expects total revenue of approximately $1.75 billion to $1.8 billion and earnings per diluted share from continuing operations in the range of $1.10 to $1.30, before the impact of one-time items associated with cost reduction programs and non-cash, non-operating items.

Results of Continuing Operations and Discontinued Operations

Revenues for the quarter ended February 28, 2013 decreased by $86.5 million, or 18.5%, to $380.5 million, compared to $467.0 million in the prior fiscal year quarter. This was due to lower revenues in the *Children s Book Publishing and Distribution* segment, the *International* segment and the *Media, Licensing and Advertising* segment of $79.4 million, $11.2 million and $2.7 million, respectively, offset in part by increased revenues in the *Classroom and Supplemental Materials Publishing* segment and the *Educational Technology and Services* segment of $5.0 million and $1.8 million, respectively. Revenues for the nine months ended February 28, 2013 decreased by $180.0 million, or 12.2%, to $1,290.3 million, compared to $1,470.3 million in the prior year fiscal period, due to lower revenues in the *Children s Book Publishing and Distribution* segment, the *Educational Technology and Services* segment, the *International* segment, the *Classroom and Supplemental Materials Publishing* segment and the *Media, Licensing and Advertising* segment of $128.7 million, $28.0 million, $9.1 million, $8.3 million and $5.9 million, respectively.

Cost of goods sold (exclusive of depreciation and amortization) as a percentage of revenue for the quarter ended February 28, 2013 increased to 50.2%, compared to 47.0% in the prior fiscal year quarter. The percentage increase in the quarter was related to higher costs for free books and related fulfillment costs in the book clubs distribution channel and an unfavorable product mix, partially offset by favorable royalty costs as a percentage of revenue driven by a decline in digital revenue from the sale of ebooks, primarily sold to third-party retailers in the *Children s Book Publishing and Distribution* segment, which carries a higher royalty cost as a percentage of revenue. Cost of goods sold (exclusive of depreciation and amortization) as a percentage of revenue for the nine months ended February 28, 2013 increased slightly to 46.9%, compared to 45.3% in the prior fiscal year period.

Components of Cost of goods sold (exclusive of depreciation and amortization) for the three and nine months ended February 28, 2013 and February 29, 2012 are as follows:

	Three months ended		Nine months ended	
	February 28, 2013	February 29, 2012	February 28, 2013	February 29, 2012
Product, service and production costs	$ 99.5	$ 114.4	$ 326.8	$ 362.1
Royalty costs	21.7	39.0	73.1	96.1
Prepublication and production amortization	12.9	12.8	36.8	37.2
Postage, freight, shipping, fulfillment and all other costs	57.0	53.4	168.9	170.3
Total	$ 191.1	$ 219.6	$ 605.6	$ 665.7

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Selling, general and administrative expenses (exclusive of depreciation and amortization) decreased by $41.9 million to $200.6 million in the quarter, compared to $242.5 million in the prior fiscal year quarter. Selling, general and administrative expenses (exclusive of depreciation and amortization) for the nine months ended February 28, 2013 decreased by $46.4 million to $609.7 million, compared to $656.1 million in the prior fiscal year period. The decreases in both periods were primarily related to lower sales tax expenses in the *Children s Book Publishing and Distribution* segment, as well as overall lower employee-related expenses.

Selling, general and administrative expenses (exclusive of depreciation and amortization) for the three and nine months ended February 28, 2013 includes $3.0 million of severance expenses related to the Company s cost savings initiatives. Selling, general and administrative expenses (exclusive of depreciation and amortization) for the three and nine months ended February 29, 2012 includes severance expenses, related to the Company s voluntary retirement program, of $2.5 million and $9.3 million, respectively.

In the prior fiscal year period, the Company recognized a loss on leases of $6.2 million for certain leased properties in lower Manhattan. The fair value of the net rents to be received under sublease arrangements is less than the Company s lease commitments for these properties over the remaining term of the leases and, accordingly, the Company recognized this loss in the nine months ended February 29, 2012.

Net interest expense for the three months ended February 28, 2013 increased by $0.2 million, to $4.1 million, compared to $3.9 million in the prior fiscal year quarter, as loan fee amortization was accelerated by $0.2 million, related to a change in the mix of lenders in connection with the amendment of the Loan Agreement described under Financing below. For the nine months ended February 28, 2013, net interest expense decreased to $11.5 million, compared to $11.7 million in the prior fiscal year period.

The loss from discontinued operations, net of tax, was less than $0.1 million, or less than $0.01 per share, for the quarter ended February 28, 2013, compared to $0.4 million, or $0.01 per share, in the prior fiscal year quarter. Loss from discontinued operations for the nine months ended February 28, 2013 was $0.2 million, or $0.01 per share, compared to $2.9 million, or $0.09 per share, for the prior fiscal year period. The decrease in such loss reflects costs and asset impairments recognized in the Company s toy catalog business which was discontinued in the quarter ended August 31, 2011.

Results of Continuing Operations

Children s Book Publishing and Distribution

	Three months ended				Nine months ended			
($ amounts in millions)	February 28, 2013	February 29, 2012	$ change	% change	February 28, 2013	February 29, 2012	$ change	% change
Revenues	$ 189.4	$ 268.8	$ (79.4)	-29.5%	$ 610.6	$ 739.3	$ (128.7)	-17.4%
Cost of goods sold (exclusive of depreciation and amortization)	86.1	109.8	(23.7)	-21.6%	261.5	304.1	(42.6)	-14.0%
Other operating expenses **	109.4	142.4	(33.0)	-23.2%	333.4	352.6	(19.2)	-5.4%
Depreciation and amortization	4.0	4.4	(0.4)	-9.1%	12.1	11.9	0.2	1.7%
Operating income (loss)	$ (10.1)	$ 12.2	$ (22.3)	*	$ 3.6	$ 70.7	$ (67.1)	-94.9%

Operating margin	*****	**4.5%**	**0.6%**	**9.6%**

* Not meaningful

** Other operating expenses include selling, general and administrative expenses, bad debt expenses and asset impairments where applicable.

Revenues in the *Children s Book Publishing and Distribution* segment for the quarter ended February 28, 2013 decreased by $79.4 million, or 29.5%, to $189.4 million, compared to $268.8 million in the prior fiscal year quarter. Revenue in the book clubs business declined by $15.2 million, reflecting lower revenue per order. Revenue for the Company s trade business decreased by $66.1 million in the quarter, primarily related to the prior year quarter s strong revenues of The Hunger Games trilogy, partially offset by a net reduction in the returns reserve due to favorable returns experience of $7.3 million, primarily related to the Hunger Games titles. Revenues in the Company s book fair business increased by $1.9 million, reflecting a higher fair count, partially offset by lower revenues per fair. Revenues for the nine months ended February 28, 2013 decreased by $128.7 million, or 17.4%, to $610.6 million,

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compared to $739.3 million in the prior fiscal year period. The decrease was related to declines in the Company s book clubs business of $43.5 million, related to lower revenue per order, as well as school closings after Superstorm Sandy, and lower revenues in the Company s trade business of $90.1 million, reflecting lower sales of The Hunger Games trilogy compared to the trilogy s strong results in the comparable prior year period. These decreases were partially offset by an increase in the Company s book fair business of $4.9 million over the prior fiscal year period.

Cost of goods sold (exclusive of depreciation and amortization) in the current fiscal quarter was $86.1 million, or 45.5% of revenues, compared to $109.8 million, or 40.8% of revenues, in the prior fiscal year quarter. The increase in Cost of goods sold (exclusive of depreciation and amortization) as a percentage of revenue was driven by higher costs for free books of $2.7 million and related fulfillment costs in the book clubs distribution channel. In addition, the Company recognized costs, in the amount of $0.9 million, related to Storia® which was launched in the prior fiscal year. These increases were partially offset by favorable royalty costs as a percentage of revenue driven by the decline in digital revenue from the sale of ebooks, sold primarily to third- party retailers, which carries a higher royalty cost as a percentage of revenue. Cost of goods sold (exclusive of depreciation and amortization) for the nine months ended February 28, 2013 was $261.5 million, or 42.8% of revenues, compared to $304.1 million, or 41.1% of revenues, in the prior fiscal year period.

Other operating expenses decreased by $33.0 million, or 23.2%, to $109.4 million for the three months ended February 28, 2013, compared to $142.4 million for the prior fiscal year quarter. The decrease is primarily related to the prior year additional sales tax expense of $19.7 million relating to sales tax assessments in two jurisdictions in the Company s book clubs business, as well as the higher prior year quarter s employee related expenses for incentive compensation. Other operating expenses decreased by $19.2 million, or 5.4%, to $333.4 million for the nine months ended February 28, 2013, compared to $352.6 million for the prior fiscal year period, related to the prior year s sales tax expenses, as well as incentive compensation in the prior year.

Segment operating loss for the quarter ended February 28, 2013 was $10.1 million, representing a decline of $22.3 million, compared to operating income of $12.2 million in the prior fiscal year quarter. Segment operating income for the nine months ended February 28, 2013 decreased by $67.1 million, or 94.9%, to $3.6 million, compared to $70.7 million in the prior fiscal year period. The decreases in both periods were principally related to the lower revenues, partially offset by the lower operating expenses.

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Educational Technology and Services

($ amounts in millions)	Three months ended February 28, 2013	Three months ended February 29, 2012	$ change	% change	Nine months ended February 28, 2013	Nine months ended February 29, 2012	$ change	% change
Revenues	$ 41.8	$ 40.0	$ 1.8	4.5%	$ 174.0	$ 202.0	$ (28.0)	-13.9%
Cost of goods sold (exclusive of depreciation and amortization)	18.9	19.3	(0.4)	-2.1%	65.7	69.7	(4.0)	-5.7%
Other operating expenses **	26.1	26.4	(0.3)	-1.1%	80.8	83.9	(3.1)	-3.7%
Depreciation and amortization	0.3	0.2	0.1	50.0%	0.9	0.9		0.0%
Operating income (loss)	$ (3.5)	$ (5.9)	$ 2.4	40.7%	$ 26.6	$ 47.5	$ (20.9)	-44.0%
Operating margin	*	*			**15.3%**	**23.5%**		

* Not meaningful

** Other operating expenses include selling, general and administrative expenses, bad debt expenses and asset impairments where applicable.

Revenues in the *Educational Technology and Services* segment for the quarter ended February 28, 2013 increased by $1.8 million, or 4.5%, to $41.8 million, compared to $40.0 million in the prior year fiscal quarter, which was attributable to increased revenues of $1.7 million in the Math Solutions business. Revenues for the nine months ended February 28, 2013 decreased by $28.0 million, or 13.9%, to $174.0 million, compared to $202.0 million in the prior fiscal year period, primarily related to decreased sales of curriculum educational technology products of $33.0 million, due to lower spending by school districts, as well as a significant sale of adoption product in Texas in the prior year period. In addition, the prior year periods benefited from higher revenues related to the launch of READ 180® Next Generation. The decrease for the nine month period ended February 28, 2013 was partially offset by higher revenues of $5.0 million in the other businesses in this segment, specifically services provided by the Math Solutions business and the consulting business associated with training for Common Core State Standards, as the Company meets the increased demand for such services.

Cost of Goods Sold (exclusive of depreciation and amortization) for the quarter ended February 28, 2013 decreased to $18.9 million, or 45.2% of revenues, compared to $19.3 million, or 48.3% of revenues for the prior year fiscal quarter. The prior fiscal period includes accelerated prepublication costs of $0.8 million for one of the Company s *Educational Technology and Services* products. Cost of Goods Sold (exclusive of depreciation and amortization) decreased to $65.7 million, or 37.8% of revenues, compared to $69.7 million, or 34.5% of revenues, for the nine months ended February 28, 2013. The increase in Cost of goods sold (exclusive of depreciation and amortization) as a percentage of revenue was primarily due to a shift in revenues from higher margin product sales to lower margin service revenues. The Company s services revenues as a percentage of total *Educational Technology and Services* revenues were 55.2% and 35.0% for the three and nine months ended February 28, 2013, respectively, and 51.3% and 27.2% for the three and nine months ended February 29, 2012, respectively.

Other operating expenses for the quarter ended February 28, 2013 remained relatively flat compared to the prior fiscal period. Other operating expenses for the nine months ended February 28, 2013 decreased by $3.1 million, to $80.8 million, compared to $83.9 million for the prior fiscal year period. The decrease was related to lower commission expense of $2.7 million, resulting from the lower revenues, as well as lower promotion spending of $0.7 million.

Segment operating loss for the quarter ended February 28, 2013 decreased to a loss of $3.5 million, compared to a loss of $5.9 million in the prior fiscal year period. This improvement was attributable to the increased revenue. Segment operating income for the nine months ended February 28, 2013 decreased by $20.9 million, or 44.0%, to $26.6 million, compared to $47.5 million in the prior fiscal year period. The decrease was primarily related to the lower revenues discussed above.

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Classroom and Supplemental Materials Publishing

($ amounts in millions)	Three months ended February 28, 2013	Three months ended February 29, 2012	$ change	% change	Nine months ended February 28, 2013	Nine months ended February 29, 2012	$ change	% change
Revenues	$ 43.2	$ 38.2	$ 5.0	13.1%	$ 134.3	$ 142.6	$ (8.3)	-5.8%
Cost of goods sold (exclusive of depreciation and amortization)	18.8	16.3	2.5	15.3%	53.3	57.5	(4.2)	-7.3%
Other operating expenses **	24.3	25.0	(0.7)	-2.8%	75.4	75.3	0.1	0.1%
Depreciation and amortization	0.3	0.3	0.0	0.0%	1.0	0.8	0.2	25.0%
Operating income (loss)	$ (0.2)	$ (3.4)	$ 3.2	*	$ 4.6	$ 9.0	$ (4.4)	-48.9%
Operating margin	*	*			**3.4%**	**6.3%**		

* Not meaningful

** Other operating expenses include selling, general and administrative expenses, bad debt expenses and asset impairments where applicable.

Revenues in the *Classroom and Supplemental Materials Publishing* segment for the quarter ended February 28, 2013 increased by $5.0 million, or 13.1%, to $43.2 million, compared to $38.2 million in the prior fiscal year quarter, driven by higher classroom magazines revenue, most notably in the *Scholastic News*® and *Let s Find Out*® magazines which contributed $3.3 million to the overall increase. Strong sales of classroom magazines were driven by schools need for non-fiction content aligned to Common Core State Standards. Revenues for the nine months ended February 28, 2013 decreased by $8.3 million, or 5.8%, to $134.3 million, compared to $142.6 million in the prior fiscal year period. This decrease was primarily related to the loss of revenue from significant non-recurring contracts with Reading is Fundamental of $13.6 million which were in place in the prior fiscal year period, partially offset by the increased revenue in the Company s classroom magazine business.

Cost of goods sold (exclusive of depreciation and amortization) was consistent with the prior period and for the quarter ended February 28, 2013 was $18.8 million, or 43.5% of revenue, compared to $16.3 million, or 42.7% of revenue, in the prior fiscal year period. Cost of goods sold (exclusive of depreciation and amortization) for the nine months ended February 28, 2013 was $53.3 million, or 39.7% of revenue, compared to $57.5 million, or 40.3% of revenue, in the prior fiscal year period.

Segment operating loss for the quarter ended February 28, 2013 decreased by $3.2 million to a loss of $0.2 million, compared to a loss of $3.4 million in the prior year fiscal quarter. This improvement was primarily related to the higher revenues noted above. Segment operating income for the nine months ended February 28, 2013 decreased by $4.4 million, or 48.9%, to $4.6 million, compared to $9.0 million in the prior fiscal year period. This decrease was principally related to the lower revenues noted above.

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International

($ amounts in millions)	Three months ended February 28, 2013	Three months ended February 29, 2012	$ change	% change	Nine months ended February 28, 2013	Nine months ended February 29, 2012	$ change	% change
Revenues	$ 94.4	$ 105.6	$ (11.2)	-10.6%	$ 328.3	$ 337.4	$ (9.1)	-2.7%
Cost of goods sold (exclusive of depreciation and amortization)	47.5	53.8	(6.3)	-11.7%	161.4	168.7	(7.3)	-4.3%
Other operating expenses **	43.4	45.5	(2.1)	-4.6%	133.4	133.0	0.4	0.3%
Depreciation and amortization	1.5	2.0	(0.5)	-25.0%	4.0	4.9	(0.9)	-18.4%
Operating income (loss)	$ 2.0	$ 4.3	$ (2.3)	-53.5%	$ 29.5	$ 30.8	$ (1.3)	-4.2%
Operating margin	**2.1%**	**4.1%**			**9.0%**	**9.1%**		

** Other operating expenses include selling, general and administrative expenses, bad debt expenses and asset impairments where applicable.

Revenues in the *International* segment for the quarter ended February 28, 2013 decreased by $11.2 million to $94.4 million, compared to $105.6 million in the prior fiscal year quarter, principally due to lower revenues in Canada of $9.8 million, primarily in the trade and book clubs businesses, as well as lower revenues in Australia of $3.4 million, primarily in the new media and trade businesses. In both cases, the lower revenues in the trade business resulted from lower sales of the Hunger Games trilogy. These decreases were partially offset by increased revenues of $3.2 million in the Company s Asian businesses. The favorable impact of foreign exchange rates was $0.4 million. Revenues for the nine months ended February 28, 2013 decreased by $9.1 million to $328.3 million, compared to $337.4 million in the prior fiscal year period. This decrease was primarily related to the same factors driving the quarter decrease, as well as the negative impact of foreign currency exchange rates of $2.2 million, all of which were partially offset by higher revenues in the Company s export business of $3.1 million.

Cost of goods sold (exclusive of depreciation and amortization) as a percentage of revenue for the three and nine months ended February 28, 2013 and February 29, 2012 remained relatively flat.

Segment operating income for the quarter ended February 28, 2013 decreased by $2.3 million, or 53.5%, to $2.0 million, compared to $4.3 million in the prior fiscal year quarter. Excluding the $2.4 million favorable impact of foreign exchange rates, segment operating income decreased by $4.7 million for the quarter ended February 28, 2013, primarily due to the lower revenues noted above. Segment operating income for the nine months ended February 28, 2013 decreased by $1.3 million, or 4.2%, to $29.5 million, compared to $30.8 million in the prior fiscal year period. Excluding the $1.0 million favorable impact of foreign exchange rates, segment operating income decreased by $2.3 million for the nine months ended February 28, 2013, primarily due to the lower revenues noted above.

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Media, Licensing and Advertising

($ amounts in millions)	Three months ended February 28, 2013	Three months ended February 29, 2012	$ change	% change	Nine months ended February 28, 2013	Nine months ended February 29, 2012	$ change	% change
Revenues	$ 11.7	$ 14.4	$ (2.7)	-18.8%	$ 43.1	$ 49.0	$ (5.9)	-12.0%
Cost of goods sold (exclusive of depreciation and amortization)	5.3	6.2	(0.9)	-14.5%	18.5	23.0	(4.5)	-19.6%
Other operating expenses **	8.6	9.4	(0.8)	-8.5%	25.2	28.9	(3.7)	-12.8%
Depreciation and amortization	0.1	0.0	0.1	*	0.3	0.4	(0.1)	-25.0%
Operating income (loss)	$ (2.3)	$ (1.2)	$ (1.1)	*	$ (0.9)	$ (3.3)	$ 2.4	72.7%
Operating margin	*	*			*	*		

* Not meaningful

** Other operating expenses include selling, general and administrative expenses, bad debt expenses and asset impairments where applicable.

Revenues in the *Media, Licensing and Advertising* segment for the quarter ended February 28, 2013 decreased by $2.7 million, or 18.8%, to $11.7 million, compared to $14.4 million in the prior fiscal year quarter. The decrease in revenues was primarily due to lower production revenues, principally *Word Girl*®. Revenues for the nine months ended February 28, 2013 decreased by $5.9 million, or 12.0%, to $43.1 million, compared to $49.0 million in the prior fiscal year period. This decrease was primarily related to lower production revenues of $3.5 million, as well as lower advertising and consumer magazine revenues of $3.3 million, partially offset by increased revenues in the Company s interactive business, specifically from the increased sales of audio books.

Cost of goods sold (exclusive of depreciation and amortization) was $5.3 million, or 45.3% of revenue, for the quarter ended February 28, 2013, compared to $6.2 million, or 43.1% of revenue, for the prior fiscal year quarter. Cost of goods sold (exclusive of depreciation and amortization) was $18.5 million, or 42.9% of revenue, for the nine months ended February 28, 2013, compared to $23.0 million, or 46.9% of revenue, for the prior fiscal year period. The decrease for the nine months ended February 28, 2013 was primarily related to lower production costs.

Other operating expenses for the quarter ended February 28, 2013 decreased by $0.8 million to $8.6 million, from $9.4 million in the prior fiscal year quarter, primarily driven by lower employee related expenses of $0.7 million. Other operating expenses for the nine months ended February 28, 2013 decreased by $3.7 million to $25.2 million, compared to $28.9 million in the prior fiscal year period. The decrease is related to settlement income received of $1.3 million, as well as lower promotional, employee and other operating expenses in the Company s consumer magazine business totaling $2.1 million.

Segment operating loss for the quarter ended February 28, 2013 increased by $1.1 million to a loss of $2.3 million, compared to a loss of $1.2 million in the prior fiscal year quarter. This decrease was primarily related to the lower revenues noted above. Segment operating loss for the nine months ended February 28, 2013 was $0.9 million, compared to a loss of $3.3 million in the prior fiscal year period. The improvement is related to the lower Cost of goods sold (exclusive of depreciation and amortization) as discussed above, as well as the lower operating expenses noted above, partially offset by the decline in revenue.

Overhead

Corporate overhead for the quarter ended February 28, 2013 decreased by $4.3 million to $13.6 million, compared to $17.9 million in the prior fiscal year quarter. Corporate overhead for the nine months ended February 28, 2013 decreased by $22.1 million to $37.7 million, compared to $59.8 million in the prior fiscal year period. The decrease in both periods was primarily related to lower employee-related expenses.

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Seasonality

The Company s school-based book clubs, school-based book fairs and most of its magazines 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 book club and book fair revenues are greatest in the second and fourth quarters of the fiscal year, while revenues from the sale of instructional materials and educational technology products and services are highest in the first and fourth quarters. The Company generally experiences a loss from operations in the first and third quarters of each fiscal year. Trade sales can vary throughout the year due to varying release dates of published titles.

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Liquidity and Capital Resources

The Company s cash and cash equivalents totaled $196.7 million at February 28, 2013, compared to $194.9 million at May 31, 2012 and $111.8 million at February 29, 2012.

Cash provided by operating activities was $107.2 million for the nine months ended February 28, 2013, compared to $132.8 million in the prior fiscal year period, representing a decrease in cash provided by operating activities of $25.6 million.

Primary drivers of the decrease include:

- Lower net income of $35.8 million for the nine months ended February 28, 2013 compared to the nine months ended February 29, 2012. The prior year period s net income included $6.2 million of charges for sublease losses and higher stock-based compensation expense of $4.8 million. Neither the sublease losses nor the stock-based compensation expense resulted in cash payouts for the prior fiscal period.
- The change in accrued royalties which generated a cash use of $76.0 million in the current nine month fiscal period. Current year payouts exceed current year accruals due to the payment of royalties associated with prior year sales of The Hunger Games trilogy for which royalty payments were made by the Company in the current year. Typically the nine month period results in accruals in excess of payouts as payments are made in the second and fourth quarters of the fiscal year.
- The change in accrued expenses which generated a cash use of $96.4 million was driven by first quarter employee incentive compensation payments related to the prior fiscal year s results and higher tax accruals in the prior fiscal year.

Partially offset by:

- Increase in net cash collections of $185.0 million in the current fiscal period largely attributable to the prior fiscal year s sales performance in the Company s *Children s Book Publishing and Distribution* segment (primarily The Hunger Games trilogy), as well as higher cash received in the *Classroom and Supplemental Materials Publishing* segment, primarily related to classroom magazines.
- Decreased net inventory balances of $35.5 million in the current fiscal period driven by lower purchases, as the Company continues to monitor working capital levels closely.

Cash used in investing activities was $94.9 million for the nine months ended February 28, 2013, compared to $78.0 million in the prior year fiscal year period, representing an increase of $16.9 million. The Company continues to invest in its ongoing digital initiatives and upgraded its fleet of vehicles in the book fairs business as well as investing in product development in the *Educational Technology and Services* segment.

Cash used in financing activities was $11.5 million for the nine months ended February 28, 2013, compared to $47.6 million for the prior fiscal year period, primarily reflecting Term Loan payments in the prior fiscal year period under the Company s Loan Agreement discussed below. Dividend payouts increased by $2.6 million, as the Company implemented a higher per share dividend rate. Partially offsetting these higher uses of cash were lower net borrowings under lines of credit of $18.4 million and an increase in proceeds pursuant to stock-based compensation plans of $8.5 million in the current fiscal period.

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.

The Company s operating philosophy is to use cash provided from 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, as well as engaging in shareholder enhancement initiatives, such as share repurchases or dividend declarations. The Company believes that funds generated by its operations and funds available under its current credit facilities, after the anticipated use of the credit facility to

satisfy its repayment obligations in respect of the 5% Notes due in fiscal 2013, will be sufficient to finance its short-and long-term capital requirements.

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 February 28, 2013, the Company s primary sources of liquidity consisted of cash and cash equivalents of $196.7 million, cash from operations and borrowings available under the Revolving Loan (as described under Financing below) totaling $425.0 million, less the amount anticipated to be utilized to satisfy the outstanding 5% Notes. 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). Accordingly, the Company believes these sources of liquidity are sufficient to finance its ongoing operating needs, as well as its financing and investing activities.

The Company s credit rating from Standard & Poor s Rating Services is BB- and its credit rating from Moody s Investors Service is Ba1. Both Moody s Investors Service and Standard and Poor s Rating Services have rated the outlook for the Company as Stable. The Company is currently compliant with its debt covenants and expects to remain compliant for the foreseeable future. The Company s interest rates for the Loan Agreement are associated with certain leverage ratios, and, accordingly, a change in the Company s credit rating does not result in an increase in interest costs under the Company s Loan Agreement.

Effective December 5, 2012, as discussed below, the Company amended its existing revolving credit facility, which was scheduled to mature on June 1, 2014, to extend the maturity date to December 5, 2017. The Company intends to draw on this credit facility to satisfy its repayment obligations in respect of the 5% Notes due April 2013.

Financing

Loan Agreement

On June 1, 2007, Scholastic Corporation and Scholastic Inc. (each, a Borrower and together, the Borrowers) entered into a $525.0 million credit facility with certain banks (the Loan Agreement), consisting of a $325.0 million revolving credit component (the Revolving Loan) and a $200.0 million amortizing term loan component (the Term Loan), with the ability to increase the aggregate Revolving Loan commitments of the lenders by up to an additional $150.0 million. The Loan Agreement was amended on August 16, 2010, on October 25, 2011 and most recently on December 5, 2012. The amendment on December 5, 2012 served to, among other things, (i) increase the Revolving Loan from $325.0 million to $425.0 million (with the continued ability to increase the aggregate Revolving Loan commitments of the lenders by up to an additional $150.0 million), (ii) extend the maturity of the $425.0 million Revolving Loan to December 5, 2017 from June 1, 2014, (iii) amend a covenant in the Loan Agreement to permit certain sales, transfers and dispositions of assets by either Borrower or any subsidiary to any other Borrower or subsidiary and (iv) amend a covenant in the Loan Agreement to permit transactions between or among the Company and its wholly-owned subsidiaries not involving any other affiliates. Additionally, this amendment added certain lenders to the Loan Agreement and other lenders exited the Loan Agreement with no further obligation.

The Revolving Loan allows the Company to borrow, repay or prepay and reborrow at any time prior to the stated maturity date, and the proceeds may be used for general corporate purposes, including financing for acquisitions and share repurchases.

Interest on the Revolving Loan 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 Revolving Loan 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 0.500% or (iii) the Eurodollar Rate for a one month interest period plus 1% plus an applicable spread ranging from 0.18% 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 1.18% to 1.60%, as determined by the Company s prevailing consolidated debt to total capital ratio.

At February 28, 2013, the indicated spread on Base Rate Advances was 0.18% and the indicated spread on Eurodollar Rate Advances was 1.18%, 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 ranging from 0.20% to 0.40% per annum based upon the Company s prevailing consolidated debt to total capital ratio. At February 28, 2013, the facility fee rate was 0.20%. There were no outstanding borrowings under the Revolving Loan as of February 28, 2013.

As of February 28, 2013, standby letters of credit outstanding under the Loan Agreement totaled $1.4 million. 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 February 28, 2013, the Company was in compliance with these covenants.

Lines of Credit

The Company has unsecured money market bid rate credit lines totaling $20.0 million. There were no outstanding borrowings under these credit lines at February 28, 2013, May 31, 2012 and February 29, 2012. 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 364 days. These credit lines may be renewed, if requested by the Company, at the option of the lender.

As of February 28, 2013, the Company also had various local currency credit lines, with maximum available borrowings in amounts equivalent to $27.1 million, underwritten by banks primarily in the United States, Canada and the United Kingdom. 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. There were borrowings outstanding under these international facilities equivalent to $1.8 million at February 28, 2013 at a weighted average interest rate of 8.9%; $6.5 million at May 31, 2012 at a weighted average interest rate of 5.3%; and $12.6 million at February 29, 2012 at a weighted average interest rate of 4.7%. The increased weighted average interest rate as of February 28, 2013 was due to local borrowing interest rates in Asia.

5% Notes due 2013

In April 2003, Scholastic Corporation issued $175.0 million of 5% Notes (the 5% Notes). The 5% Notes are senior unsecured obligations that mature on April 15, 2013. Interest on the 5% Notes is payable semi-annually on April 15 and October 15 of each year through maturity. The Company may at any time redeem all or a portion of the 5% Notes at a redemption price (plus accrued interest to the date of the redemption) equal to the greater of (i) 100% of the principal amount, or (ii) the sum of the present values of the remaining scheduled payments of principal and interest discounted to the date of redemption. The Company did not make any repurchases of the 5% Notes during the nine-month period ended February 28, 2013.

As discussed above, the Company amended its existing revolving credit facility, which was scheduled to mature on June 1, 2014, to extend the maturity date to December 5, 2017. The Company has the ability to use a portion of this credit facility to fully redeem the 5% Notes due April 2013 and intends to draw on this credit facility for this purpose. Accordingly, the balance of the 5% Notes is excluded from current liabilities and classified as Long-term debt on the Company s condensed consolidated balance sheets at February 28, 2013 and May 31, 2012.

At February 28, 2013, the Company had open standby letters of credit totaling $6.6 million issued under certain credit lines, including the $1.4 million under the Loan Agreement discussed above. These letters of credit are scheduled to expire within one year; however, the Company expects that substantially all of these letters of credit will be renewed, at similar terms, prior to expiration.

The Company s total debt obligations were $154.8 million at February 28, 2013, $159.3 million at May 31, 2012 and $165.3 million at February 29, 2012.

For a more complete description of the Company s debt obligations, see Note 4 of Notes to condensed consolidated financial statements unaudited in Item 1, Financial Statements.

SCHOLASTIC CORPORATION
Item 2. MD&A

New Accounting Pronouncements

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

SCHOLASTIC CORPORATION
Item 2. MD&A

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, goals, revenues, improved efficiencies, general costs, manufacturing costs, medical costs, pension estimates, merit pay, operating margins, working capital, liquidity, capital needs, financing intentions, 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. Additionally, 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. As of February 28, 2013, the use of short-term forward exchange contracts was not significant. 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, which are managed through the mix of variable-rate versus fixed-rate borrowings. Additionally, financial instruments, including swap agreements, have been used to manage interest rate exposures. Approximately 1% of the Company s debt at February 28, 2013 bore interest at a variable rate and was sensitive to changes in interest rates, compared to approximately 4% at May 31, 2012 and approximately 8% at February 29, 2012. 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 Item 2, Management s Discussion and Analysis of Financial Condition and Results of Operations.

The following table sets forth information about the Company s debt instruments as of February 28, 2013 (see Note 4 of Notes to condensed consolidated financial statements - unaudited in Item 1, Financial Statements):

(*$ amounts in millions*)	Payments Due By Period							
	2013 [1]	**2014**	**2015**	**2016**	**2017**	**Thereafter**	**Total**	**Fair Value @ 2/28/13**
Debt Obligations								
Lines of Credit	$ 1.8	$	$	$	$	$	$ 1.8	$ 1.8
Average interest rate	8.9%							
Long-term debt including current								
Fixed-rate debt	$	$	$	$	$ 153.0[2]	$	$ 153.0	$ 153.0
Average interest rate					various[3]			

(1) Fiscal 2013 includes the remaining three months of the current fiscal year, ending May 31, 2013.

(2) Effective December 5, 2012, the Company amended its existing revolving credit facility, which was scheduled to mature on June 1, 2014, to extend the maturity date to December 5, 2017. The Company intends to draw on this credit facility to satisfy its repayment obligations in respect of the 5% Notes due April 2013.

(3) The average interest rate is variable and is anticipated to be that of the Company s revolving credit facility as discussed under Financing in Item 2, Management s Discussion and Analysis of Financial Condition and Results of Operations.

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 February 28, 2013, 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 February 28, 2013 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 February 28, 2013:

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 (i)
December 1, 2012 through December 31, 2012	33,124	$ 28.32	33,124	$ 29.9
January 1, 2013 through January 31, 2013	112,404	$ 29.07	112,404	$ 26.7
February 1, 2013 through February 28, 2013	37,206	$ 28.88	37,206	$ 25.6
Total	182,734	$ 28.90	182,734	

(i) Represents the remaining amount under the $20 million Common share repurchase program announced on December 16, 2009 and the further $200 million Board authorization for Common share repurchases announced in connection with the modified Dutch auction tender offer commenced by the Company on September 28, 2010 and completed in November 2010. Approximately $156 million was used for repurchases in such tender offer, leaving, after subsequent additional open market repurchases of $14.6 million, $30.9 million at December 1, 2012 for further repurchases, from time to time as conditions allow, on the open market or through negotiated private transactions, under the current Board authorizations.

SCHOLASTIC CORPORATION
Item 6. Exhibits

Exhibits:

4.1	Amendment No. 3, dated as of December 5, 2012, to the Credit Agreement, dated as of June 1, 2007, among the Corporation and Scholastic Inc., as borrowers, the Initial Lenders named therein, JP Morgan Chase Bank, N.A., as administrative agent, J.P. Morgan Securities Inc. and Bank of America Securities LLC., as joint lead arrangers and joint bookrunners, Bank of America, N. A. and Wachovia Bank, N. A., as syndication agents, and SunTrust Bank and The Royal Bank of Scotland, plc, as Documentation Agents.
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
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: March 29, 2013 By: /s/ Richard Robinson

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

Date: March 29, 2013 By: /s/ Maureen O Connell

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

SCHOLASTIC CORPORATION
QUARTERLY REPORT ON FORM 10-Q, DATED FEBRUARY 28, 2013
Exhibits Index

Exhibit Number	Description of Document
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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.