SCHOLASTIC CORP
Form 10-Q
December 22, 2011

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

FORM 10-Q

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

For the quarterly period ended November 30, 2011 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 November 30, 2011
Common Stock, $.01 par value	29,397,813

Class A Stock, $.01 par value	1,656,200

SCHOLASTIC CORPORATION
FORM 10-Q FOR THE QUARTERLY PERIOD ENDED NOVEMBER 30, 2011
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PART I - FINANCIAL INFORMATION

Item 1. Financial Statements

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

	Three months ended November 30,		Six months ended November 30,	
	2011	**2010**	**2011**	**2010**
Revenues	**$ 685.3**	**$ 667.9**	**$ 1,003.3**	**$ 958.3**
Operating costs and expenses:				
Cost of goods sold (exclusive of depreciation and amortization)	285.7	291.2	446.1	438.5
Selling, general and administrative expenses (exclusive of depreciation and amortization)	229.6	229.1	400.6	399.1
Bad debt expense	3.3	3.0	4.7	5.9
Depreciation and amortization	15.5	14.5	30.6	28.9
Loss on leases	6.2		6.2	
Severance	5.0	1.0	8.3	3.1
Total operating costs and expenses	545.3	538.8	896.5	875.5
Operating income	**140.0**	**129.1**	**106.8**	**82.8**
Other expense		(0.4)		(0.4)
Interest expense, net	3.9	4.0	7.8	7.8
Earnings from continuing operations before income taxes	**136.1**	**124.7**	**99.0**	**74.6**
Provision for income taxes	52.8	47.6	40.8	31.4
Earnings from continuing operations	**83.3**	**77.1**	**58.2**	**43.2**
Loss from discontinued operations, net of tax	**(0.5)**	**(2.2)**	**(2.5)**	**(3.5)**
Net income	**$ 82.8**	**$ 74.9**	**$ 55.7**	**$ 39.7**
Basic and diluted earnings (loss) per Share of Class A and Common Stock				
Basic:				
Earnings from continuing operations	$ 2.66	$ 2.23	$ 1.86	$ 1.22
Loss from discontinued operations, net of tax	$ (0.02)	$ (0.06)	$ (0.08)	$ (0.10)
Net income	$ 2.64	$ 2.17	$ 1.78	$ 1.12
Diluted:				

Earnings from continuing operations	$	2.62	$	2.20	$	1.83	$	1.21
Loss from discontinued operations, net of tax	$	(0.02)	$	(0.06)	$	(0.08)	$	(0.10)
Net income	$	2.60	$	2.14	$	1.75	$	1.11
Dividends declared per common share	$	0.100	$	0.075	$	0.200	$	0.150

See accompanying notes

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

	November 30, 2011	May 31, 2011	November 30, 2010
ASSETS			
Current Assets:			
Cash and cash equivalents	$ 114.0	$ 105.3	$ 53.2
Accounts receivable, net	288.1	220.3	287.5
Inventories, net	376.2	308.7	367.9
Deferred income taxes	56.6	56.2	59.8
Prepaid expenses and other current assets	45.6	57.1	48.4
Current assets of discontinued operations	9.3	10.5	18.2
Total current assets	**889.8**	**758.1**	**835.0**
Property, plant and equipment, net	328.7	339.0	343.5
Prepublication costs	118.4	117.7	109.8
Royalty advances, net	37.0	35.5	38.6
Production costs	7.1	7.4	7.6
Goodwill	155.1	154.2	163.7
Other intangibles	18.9	19.8	15.0
Noncurrent deferred income taxes	20.0	20.2	33.4
Other assets and deferred charges	35.9	35.1	37.8
Total assets	**$ 1,610.9**	**$ 1,487.0**	**$ 1,584.4**
LIABILITIES AND STOCKHOLDERS EQUITY			
Current Liabilities:			
Lines of credit, short-term debt and current portion of long-term debt	$ 5.7	$ 43.5	$ 50.0
Capital lease obligations	0.6	0.5	0.5
Accounts payable	146.0	120.1	162.5
Accrued royalties	50.8	35.4	48.8
Deferred revenue	92.2	49.1	81.7
Other accrued expenses	205.1	173.3	165.8
Current liabilities of discontinued operations	0.7	0.8	3.7
Total current liabilities	**501.1**	**422.7**	**513.0**
Noncurrent Liabilities:			
Long-term debt	152.7	159.9	181.2
Capital lease obligations	55.5	55.0	54.5
Other noncurrent liabilities	110.1	109.4	115.0
Total noncurrent liabilities	**318.3**	**324.3**	**350.7**
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, $.01 par value	0.4	0.4	0.4
Additional paid-in capital	583.2	576.6	577.7
Accumulated other comprehensive loss	(57.0)	(53.9)	(72.6)
Retained earnings	685.2	635.8	642.4
Treasury stock at cost	(420.3)	(418.9)	(427.2)
Total stockholders equity	**791.5**	**740.0**	**720.7**
Total liabilities and stockholders equity	**$ 1,610.9**	**$ 1,487.0**	**$ 1,584.4**

See accompanying notes

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

	Six months ended November 30, 2011	Six months ended November 30, 2010
Cash flows provided by (used in) operating activities:		
Net income	$ 55.7	$ 39.7
Loss from discontinued operations, net of tax	(2.5)	(3.5)
Earnings from continuing operations	58.2	43.2
Adjustments to reconcile earnings from continuing operations to net cash provided by operating activities of continuing operations:		
Provision for losses on accounts receivable	4.7	5.9
Provision for losses on inventory	11.6	12.0
Provision for losses on royalty	2.3	1.7
Amortization of prepublication and production costs	24.4	24.5
Depreciation and amortization	30.6	28.9
Deferred income taxes		1.0
Stock-based compensation	7.8	8.4
Loss on leases	6.2	
Changes in assets and liabilities:		
Accounts receivable	(76.0)	(75.5)
Inventories	(83.5)	(60.1)
Other current assets	(8.1)	(10.4)
Deferred promotion costs	(1.8)	(1.6)
Royalty advances	(4.1)	(1.9)
Accounts payable	25.3	57.6
Other accrued expenses	55.1	9.5
Accrued royalties	15.9	5.8
Deferred revenue	43.2	41.6
Pension and post-retirement liability	(2.8)	(4.3)
Other, net	0.1	(0.1)
Total adjustments	50.9	43.0
Net cash provided by operating activities of continuing operations	109.1	86.2
Net cash used in operating activities of discontinued operations	(1.3)	(2.7)
Net cash provided by operating activities	107.8	83.5
Cash flows used in investing activities:		
Prepublication and production expenditures	(25.4)	(23.4)
Additions to property, plant and equipment	(20.8)	(24.2)
Land acquisition		(24.3)
Acquisition-related payments (net of cash received of $2.5)		(9.2)

Net cash used in investing activities of continuing operations	(46.2)	(81.1)
Net cash used in investing activities	(46.2)	(81.1)

See accompanying notes

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

	Six months ended November 30,	
	2011	**2010**
Cash flows (used in) provided by financing activities:		
Repayment of term loan	(50.2)	(21.4)
Borrowings under Credit Agreement and Revolver	28.8	70.0
Repayment of Credit Agreement and Revolver	(28.8)	(70.0)
Borrowings under lines of credit	52.0	78.6
Repayment of lines of credit	(45.0)	(79.8)
Repayment of capital lease obligations	(0.2)	(1.8)
Reacquisition of common stock	(5.0)	(165.7)
Proceeds pursuant to stock-based compensation plans	3.4	1.0
Payment of dividends	(6.2)	(5.4)
Other	(0.6)	(0.9)
Net cash used in financing activities of continuing operations	(51.8)	(195.4)
Net cash used in financing activities	(51.8)	(195.4)
Effect of exchange rate changes on cash and cash equivalents	(1.1)	3.3
Net increase (decrease) in cash and cash equivalents	8.7	(189.7)
Cash and cash equivalents at beginning of period, including cash of discontinued operations of $0.0 and $0.0 at June 1, 2011 and 2010, respectively.	105.3	244.1
Cash and cash equivalents at end of period, including cash of discontinued operations of $0.0 and $1.2 at November 30, 2011 and 2010, respectively.	**$ 114.0**	**$ 54.4**

See accompanying notes

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

1. Basis of Presentation

Principles of consolidation

The accompanying condensed consolidated financial statements include the accounts of Scholastic Corporation (the Corporation) and all wholly-owned and majority-owned subsidiaries (collectively, Scholastic or the Company). Intercompany transactions are eliminated in consolidation. These financial statements have not been audited but reflect those adjustments consisting of normal recurring items that management considers necessary for a fair presentation of financial position, results of operations 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, 2011 (the Annual Report).

The Company s fiscal year is not a calendar year. Accordingly, references in this document to fiscal 2011 relate to the twelve month period ended May 31, 2011.

Change in Reportable Segments

During the quarter ended August 31, 2011, the Company determined that its reportable segment structure is now comprised of five reportable segments:

Children s Book Publishing and Distribution
Educational Technology and Services
Classroom and Supplemental Materials Publishing
Media, Licensing and Advertising
International

Accordingly, the Company has presented segment data in prior periods consistent with this change in reportable segments.

Discontinued Operations

The Company closed or sold several operations during fiscal 2009, fiscal 2010 and the first quarter of fiscal 2012, and presently holds for sale one facility. During the first quarter of fiscal 2012, the Company ceased operations in its direct-to-home catalog business specializing in toys. This business was a separate reporting unit included in the *Media, Licensing and Advertising* segment and is now classified as a discontinued operation in the Company s financial statements. Reference is made to Note 2, Discontinued Operations, for additional information concerning discontinued operations.

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 are highest in the first and fourth quarters. The Company typically experiences losses from operations in the first and third quarters of each fiscal year. Due to the seasonal fluctuations that occur, the November 30, 2010 condensed consolidated balance sheet is included for comparative purposes.

Use of estimates

The Company s condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States and with the instructions to Form 10-Q and Regulation S-X. The preparation of these financial statements involves the use of estimates and assumptions by management, which affects the amounts reported in the condensed consolidated financial statements and accompanying notes. The Company bases its estimates on historical experience, current business factors, and various other assumptions believed to be reasonable under the circumstances, all of which are necessary in order to form a basis for determining the carrying values of assets and liabilities. Actual results may differ from those estimates and assumptions. On an on-going basis, the Company evaluates the adequacy of its reserves and the estimates used in calculations,

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 $0.5, $0.5 and $1.3 at November 30, 2011, May 31, 2011 and November 30, 2010, respectively, which is reported in Other current assets.

New Accounting Pronouncements

In May 2011, the FASB issued an update to the authoritative guidance related to fair value measurements. The amendments will add new disclosures, with a particular focus on Level 3 measurements. The objective of these amendments is to improve the comparability of fair value measurements presented and disclosed in financial statements prepared in accordance with U.S. generally accepted accounting principles (GAAP) and International Financial Reporting Standards (IFRS). The disclosure amendments in this update are to be applied prospectively and are effective during interim and annual periods beginning after December 15, 2011. Early application is not permitted.

In June 2011, the FASB issued an update related to the reporting of other comprehensive income. The amendments require that all non-owner changes in stockholders equity be presented either in a single continuous statement of comprehensive income or in two separate but consecutive statements. The amendments are effective for fiscal years, and interim periods within those years, beginning after December 15, 2011.

In September 2011, the FASB issued an update to the authoritative guidance related to goodwill impairment testing. The updated guidance gives companies the option to first perform a qualitative assessment to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount. 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 a reporting unit is less than its carrying amount. If a company concludes that this is the case, it must perform the two-step test. Otherwise, a company can skip the two-step test. Companies are not required to perform the qualitative assessment and are permitted to skip the qualitative assessment for any reporting unit in any period and proceed directly to Step 1 of the test. A company that validates its conclusion by measuring fair value can resume performing the qualitative assessment in any subsequent period. The amendments are effective for annual and interim goodwill impairment tests performed for fiscal years beginning after December 15, 2011. Early adoption is permitted.

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. In the first quarter of fiscal 2012, the Company ceased operations in its direct-to-home catalog business specializing in toys. This business was a separate reporting unit included in the *Media, Licensing and Advertising* segment.

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

	Three months ended November 30,		Six months ended November 30,	
	2011	**2010**	**2011**	**2010**
Revenues	$	$ 7.8	$ 0.1	$ 8.3
Non-cash impairment			0.9	
Loss before income taxes	(0.7)	(2.5)	(3.3)	(4.4)
Income tax benefit	0.2	0.3	0.8	0.9
Loss from discontinued operations, net of tax	**$ (0.5)**	**$ (2.2)**	**$ (2.5)**	**$ (3.5)**

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:

	November 30, 2011	**May 31, 2011**	**November 30, 2010**
Accounts receivable, net	$ 0.1	$ 0.1	$ 0.2
Inventories, net		1.2	3.7
Other assets	9.2	9.2	14.3
Current assets of discontinued operations	**$ 9.3**	**$ 10.5**	**$ 18.2**
Accounts payable	$ 0.1	$ 0.2	$ 1.9
Accrued expenses and other current liabilities	0.6	0.6	1.8
Current liabilities of discontinued operations	**$ 0.7**	**$ 0.8**	**$ 3.7**

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, media and interactive products in the United States through school-based book clubs and book fairs 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 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)	Educational Technology and Services(1)(2)	Classroom and Supplemental Materials Publishing(1)	Media, Licensing and Advertising(1)	Overhead(1)(3)	Total Domestic	International(1)	Total
Three months ended November 30, 2011								
Revenues	$ 388.6	$ 65.4	$ 58.7	$ 28.5	$	$ 541.2	$ 144.1	$ 685.3
Bad debt expense	1.6	0.4	0.5			2.5	0.8	3.3
Depreciation and amortization(4)	3.8	0.4	0.2	0.3	9.4	14.1	1.4	15.5
Amortization(5)	3.1	5.1	1.7	2.1		12.0	0.5	12.5
Loss on leases					6.2	6.2		6.2
Royalty advances expensed	2.7		(0.1)			2.6	0.5	3.1
Segment operating income (loss)	108.6	14.6	10.3	2.6	(22.7)	113.4	26.6	140.0
Expenditures for long-lived assets including royalty advances	12.9	6.0	3.1	2.1	7.6	31.7	1.6	33.3
Three months ended November 30, 2010								
Revenues	$ 387.3	$ 49.1	$ 52.5	$ 33.1	$	$ 522.0	$ 145.9	$ 667.9
Bad debt expense	2.3	0.2	(0.2)	0.1		2.4	0.6	3.0
Depreciation and amortization(4)	3.9	0.5	0.3		8.5	13.2	1.3	14.5
Amortization(5)	3.0	5.5	1.5	1.6		11.6	0.8	12.4
Loss on leases								
Royalty advances expensed	3.2	(0.1)	0.3	0.1		3.5	0.8	4.3
Segment operating income (loss)	97.3	3.4	7.6	5.2	(9.7)	103.8	25.3	129.1
Expenditures for long-lived assets including royalty advances	7.9	13.9	1.7	2.2	31.4	57.1	4.0	61.1

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

	Children s Book Publishing and Distribution(1)	Educational Technology and Services(1)(2)	Classroom and Supplemental Materials Publishing(1)	Media, Licensing and Advertising(1)	Overhead(1)(3)	Total Domestic	International(1)	Total
Six months ended November 30, 2011								
Revenues	$ 465.9	$ 162.0	$ 104.4	$ 39.2	$	$ 771.5	$ 231.8	$ 1,003.3
Bad debt expense	1.6	0.7	0.9			3.2	1.5	4.7
Depreciation and amortization(4)	7.5	0.7	0.5	0.4	18.6	27.7	2.9	30.6
Amortization(5)	6.2	10.3	3.1	3.6		23.2	1.2	24.4
Loss on leases					6.2	6.2		6.2
Royalty advances expensed	7.7	0.2		0.1		8.0	1.3	9.3
Segment operating income (loss)	58.8	53.4	12.4	(2.4)	(41.9)	80.3	26.5	106.8
Segment assets (at 11/30/11)	541.4	157.6	158.8	44.2	419.5	1,321.5	280.1	1,601.6
Goodwill (at 11/30/11)	54.3	22.7	64.0	5.4		146.4	8.7	155.1
Expenditures for long-lived assets including royalty advances	21.1	11.3	4.4	4.0	12.6	53.4	3.9	57.3
Long-lived assets (at 11/30/11)	175.6	98.6	81.0	20.2	242.4	617.8	69.9	687.7
Six months ended November 30, 2010								
Revenues	$ 460.2	$ 131.2	$ 89.0	$ 50.1	$	$ 730.5	$ 227.8	$ 958.3
Bad debt expense	4.3	0.5	(0.5)	0.1		4.4	1.5	5.9
Depreciation and amortization(4)	7.5	0.8	0.6	0.5	16.9	26.3	2.6	28.9
Amortization(5)	6.3	11.3	2.2	3.3		23.1	1.4	24.5
Loss on leases								
Royalty advances expensed	8.3	0.1	0.3	0.2		8.9	1.4	10.3
Segment operating income (loss)	45.7	33.6	5.9	3.0	(28.5)	59.7	23.1	82.8
Segment assets (at 11/30/10)	540.0	150.7	153.8	48.2	375.5	1,268.2	298.0	1,566.2
Goodwill (at 11/30/10)	54.3	27.9	67.4	5.4		155.0	8.7	163.7
Expenditures for long-lived assets including royalty advances	20.9	20.0	2.5	4.2	36.9	84.5	7.1	91.6
Long-lived assets (at 11/30/10)	182.4	95.2	80.4	19.8	249.9	627.7	73.0	700.7

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 the first quarter of 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) *Includes assets and results of operations acquired in a business acquisition as of September 9, 2010.*

(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. Overhead also includes amounts previously allocated to the Media, Licensing and Advertising segment for the Company s direct-to-home toy catalog business that was discontinued in the first quarter of fiscal 2012.*

(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
	November 30, 2011		**May 31, 2011**		**November 30, 2010**	
Lines of Credit (weighted average interest rates of 3.7%, 6.7% and 4.0%, respectively)	$ 5.7	$ 5.7	$ 0.7	$ 0.7	$ 7.2	$ 7.2
Loan Agreement:						
Revolving Loan						
Term Loan (interest rates of n/a, 1.0% and 1.0%, respectively)			50.2	50.2	71.6	71.6
5% Notes due 2013, net of discount	152.7	153.8	152.5	156.6	152.4	154.8
Total debt	**$ 158.4**	**$ 159.5**	**$ 203.4**	**$ 207.5**	**$ 231.2**	**$ 233.6**
Less lines of credit, short-term debt and current portion of long-term debt	(5.7)	(5.7)	(43.5)	(43.5)	(50.0)	(50.0)
Total long-term debt	**$ 152.7**	**$ 153.8**	**$ 159.9**	**$ 164.0**	**$ 181.2**	**$ 183.6**

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Short-term debt s carrying value approximates fair value. Fair value of the Loan Agreement approximates its carrying value due to its variable interest rate and stable credit rating. 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 November 30, 2011, for the twelve-month periods ended November 30:

2012	$	5.7
2013		152.7
Total debt	**$**	**158.4**

Lines of Credit

As of November 30, 2011, 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 November 30, 2011, May 31, 2011 and November 30, 2010. All loans made under these credit lines are at the sole discretion of the lender and at an interest rate and term agreed to at the time each loan is made, but not to exceed 365 days. These credit lines may be renewed, if requested by the Company, at the option of the lender.

As of November 30, 2011, the Company had various local currency credit lines, with maximum available borrowings in amounts equivalent to $34.1, 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.

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). The Loan Agreement was amended on August 16, 2010, and again on October 25, 2011. The October 25, 2011 amendment effectively extended the maturity of the Revolving Loan facility to June 1, 2014 from June 1, 2012 and provided for the repayment of the outstanding balance of the Term Loan on October 25, 2011.

The Loan Agreement, as amended, is a contractually committed unsecured credit facility that is scheduled to expire on June 1, 2014. The $325.0 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. The Loan Agreement also provides for an increase in the aggregate Revolving Loan commitments of the lenders of up to an additional $150.0.

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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 Ratio, as defined in the Loan Agreement.

- 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 Ratio, as defined in the Loan Agreement.

As of November 30, 2011, the indicated spread on Base Rate Advances was 0.25% and the indicated spread on Eurodollar Rate Advances was 1.25%, both based on the Company s prevailing Consolidated Debt Ratio. There were no Revolving Loan Advances outstanding on November 30, 2011.

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 Ratio. At November 30, 2011, the facility fee rate was 0.25%.

As of November 30, 2011, standby letters of credit outstanding under the Loan Agreement totaled $1.4. 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 November 30, 2011, the Company was in compliance with these covenants.

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.

5. Comprehensive Income

The following table sets forth comprehensive income for the periods indicated:

	Three months ended November 30,		Six months ended November 30,	
	2011	**2010**	**2011**	**2010**
Net income	$ 82.8	$ 74.9	$ 55.7	$ 39.7
Other comprehensive income, net:				
Foreign currency translation adjustment	(6.4)	4.8	(5.9)	8.2
Pension and post-retirement adjustments	1.5	4.0	2.8	4.6
Total other comprehensive (loss) income, net:	(4.9)	8.8	(3.1)	12.8
Total comprehensive income	$ 77.9	$ 83.7	$ 52.6	$ 52.5

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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 three and six month periods ended November 30, 2011 and 2010, respectively:

	Three months ended November 30,		Six months ended November 30,	
	2011	**2010**	**2011**	**2010**
Earnings from continuing operations attributable to Class A and Common Shares	**$ 82.9**	**$ 76.8**	**$ 57.9**	**$ 43.0**
Loss from discontinued operations attributable to Class A and Common Shares, net of tax	(0.5)	(2.2)	(2.5)	(3.5)
Net income attributable to Class A and Common Shares	$ 82.4	$ 74.6	$ 55.4	$ 39.5
Weighted average Shares of Class A Stock and Common Stock outstanding for basic earnings per share (in millions)	31.2	34.4	31.1	35.3
Dilutive effect of Class A Stock and Common Stock potentially issuable pursuant to stock-based compensation plans (in millions)	0.5	0.5	0.5	0.4
Adjusted weighted average Shares of Class A Stock and Common Stock outstanding for diluted earnings per share (in millions)	31.7	34.9	31.6	35.7
Earnings (loss) per share of Class A Stock and Common Stock:				
Basic earnings (loss) per share:				
Earnings from continuing operations	**$ 2.66**	**$ 2.23**	**$ 1.86**	**$ 1.22**
Loss from discontinued operations, net of tax	**$ (0.02)**	**$ (0.06)**	**$ (0.08)**	**$ (0.10)**
Net income	**$ 2.64**	**$ 2.17**	**$ 1.78**	**$ 1.12**
Diluted earnings (loss) per share:				
Earnings from continuing operations	**$ 2.62**	**$ 2.20**	**$ 1.83**	**$ 1.21**
Loss from discontinued operations, net of tax	**$ (0.02)**	**$ (0.06)**	**$ (0.08)**	**$ (0.10)**
Net income	**$ 2.60**	**$ 2.14**	**$ 1.75**	**$ 1.11**

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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) 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 two-class method.

Earnings from continuing operations exclude earnings of $0.4 and $0.3 for the three and six months ended November 30, 2011, and $0.3 and $0.2 for the three and six months ended November 30, 2010, respectively, in respect of earnings attributable to participating RSUs.

Potentially dilutive shares outstanding pursuant to compensation plans that were not included in the diluted earnings per share calculation because they were anti-dilutive were 4.8 million and 4.4 million for the three months ended November 30, 2011 and 2010, respectively, and 4.6 million and 4.8 million for the six months ended November 30, 2011 and 2010, respectively. Options outstanding pursuant to compensation plans were 5.8 million and 5.5 million as of November 30, 2011 and 2010, respectively.

As of November 30, 2011, $38.9 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 for the periods indicated:

	Six months ended November 30, 2011	Twelve months ended May 31, 2011	Six months ended November 30, 2010
Gross beginning balance	$ 175.0	$ 174.0	$ 174.0
Accumulated impairment	(20.8)	(17.4)	(17.4)
Beginning balance	$ 154.2	$ 156.6	$ 156.6
Additions		1.0	7.1
Impairment charge		(3.4)	
Other	0.9		
Gross ending balance	$ 175.9	$ 175.0	$ 181.1
Accumulated impairment	(20.8)	(20.8)	(17.4)
Ending balance	**$ 155.1**	**$ 154.2**	**$ 163.7**

On September 9, 2010, the Company purchased the assets of Math Solutions, an education resources and professional development company focusing on K-12 math instruction, for $8.0, net of cash. The Company has integrated this business with its existing educational technology businesses. 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 Math Solutions business.

As a result, the Company recognized $1.7 of goodwill and $5.6 of amortizable intangible assets. In the second quarter of fiscal 2011, the Company also recognized $0.2 of goodwill associated with a previously acquired international entity.

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As of May 31, 2011, the Company determined the carrying value of its Scholastic Library Publishing and Classroom Magazines business within the *Classroom and Supplemental Materials Publishing* segment exceeded the fair value of this reporting unit. The Company employed internally-developed discounted cash flow forecasts and market comparisons to determine the fair value of the reporting unit and the implied fair value of the reporting unit s assets and liabilities. Accordingly, the Company recognized an impairment charge of $3.4 at May 31, 2011.

The following table summarizes the activity in Total other intangibles subject to amortization for the periods indicated:

	Six months ended November 30, 2011	Twelve months ended May 31, 2011	Six months ended November 30, 2010
Beginning balance - Customer lists	$ 0.7	$ 0.8	$ 0.8
Amortization expense	(0.1)	(0.2)	(0.1)
Foreign currency translation	0.0	0.1	0.1
Customer lists, net of accumulated amortization of $1.2, $1.1 and $1.0, respectively	$ 0.6	$ 0.7	$ 0.8
Beginning balance - other intangibles	$ 17.3	$ 2.2	$ 2.2
Additions due to acquisition		5.6	
Reclassified from indefinite-lived intangible assets		10.7	10.7
Amortization expense	(0.8)	(1.2)	(0.5)
Other intangibles, net of accumulated amortization of $5.0, $4.2 and $3.5, respectively	$ 16.5	$ 17.3	$ 12.4
Total other intangibles subject to amortization	**$ 17.1**	**$ 18.0**	**$ 13.2**

Amortization expense for Total other intangibles was $0.9 for the six months ended November 30, 2011, $1.4 for the twelve months ended May 31, 2011 and $0.6 for the six months ended November 30, 2010. Intangible assets with definite lives consist principally of customer lists and covenants not to compete. Intangible assets with definite lives are amortized over their estimated useful lives. The weighted-average remaining useful lives of all amortizable intangible assets is 15.2 years.

In fiscal 2011, the Company recognized $5.6 of amortizable intangible assets as a result of the Math Solutions acquisition. The Company utilized Level 3 fair value measurement inputs, using its own assumptions including internally-developed discounted cash flow forecasts and market comparisons, to determine the fair value of the intangible assets acquired.

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In the three month period ended November 30, 2010, the Company determined that certain intangible assets associated with publishing and trademark rights, which were previously accounted for as indefinite-lived assets, were no longer indefinite-lived. Accordingly, the Company assessed these assets for impairment as of September 1, 2010, and subsequently commenced amortization of the assets. The Company determined that the fair value of the assets exceeded their carrying value as of September 1, 2010, and therefore no impairment was recognized. The Company employed Level 3 fair value measurement techniques to determine the fair value of these assets as of September 1, 2010.

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

	November 30, 2011	May 31, 2011	November 30, 2010
Net carrying value by major class:			
Trademarks and Other	$ 1.8	$ 1.8	$ 1.8
Total	**$ 1.8**	**$ 1.8**	**$ 1.8**

8. Investments

Included in Other assets and deferred charges on the Company s condensed consolidated balance sheets were investments of $22.5, $20.4 and $22.5 at November 30, 2011, May 31, 2011 and November 30, 2010, respectively.

The Company owns a non-controlling interest in a book distribution business located in the United Kingdom. In fiscal 2011, the Company determined that these assets were other than temporarily impaired. The Company employed Level 3 fair value measures, including discounted cash flow projections, and recognized an impairment loss of $3.6. The carrying value of these assets was $5.5 as of November 30, 2011.

The Company maintains an investment in an entity that produces and distributes educational children s television programming. The Company s investment, which consists of a 14.0% equity interest, is accounted for using the equity method of accounting. The net value of this investment at November 30, 2011 was $1.3.

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. The net value of this investment at November 30, 2011 was $15.7.

Income from equity joint ventures totaled $1.7 for the six months ended November 30, 2011 and $1.1 for the six months ended November 30, 2010.

The following table summarizes the Company s investments as of the dates indicated:

	November 30, 2011	May 31, 2011	November 30, 2010
Cost method investments:			
UK - based	$ 5.5	$ 5.7	$ 9.1
Total cost method investments	$ 5.5	$ 5.7	$ 9.1

Equity method investments:			
UK - based	$ 15.7	$ 13.4	$ 12.8
U.S. - based	1.3	1.3	0.6
Total equity method investments	$ 17.0	$ 14.7	$ 13.4
Total	**$ 22.5**	**$ 20.4**	**$ 22.5**

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9. Employee Benefit Plans

The following table sets 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), the defined benefit pension plan of Scholastic Ltd., an indirect subsidiary of Scholastic Corporation located in the United Kingdom (the UK Pension Plan), and the defined benefit pension plan of Grolier Limited, an indirect subsidiary of Scholastic Corporation located in Canada (the Canadian Pension Plan and together with the U.S. Pension Plan and the UK 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 November 30,		Post-Retirement Benefits Three months ended November 30,	
	2011	**2010**	**2011**	**2010**
Components of net periodic benefit costs:				
Service cost	$ 0.0	$ 0.1	$ 0.0	$ 0.0
Interest cost	2.1	2.2	0.5	0.4
Expected return on assets	(2.7)	(2.3)		
Net amortization of prior service credit			(0.2)	(0.2)
Amortization of loss	0.3	0.4	1.0	0.6
Settlement of Canadian plan		3.4		
Net periodic benefit (credit) costs	**$ (0.3)**	**$ 3.8**	**$ 1.3**	**$ 0.8**

	Pension Plans Six months ended November 30,		Post-Retirement Benefits Six months ended November 30,	
	2011	**2010**	**2011**	**2010**
Components of net periodic benefit costs:				
Service cost	$ 0.0	$ 0.2	$ 0.0	$ 0.0
Interest cost	4.2	4.4	0.9	0.9
Expected return on assets	(5.4)	(4.7)		
Net amortization of prior service credit			(0.3)	(0.3)
Amortization of loss	0.7	0.9	2.1	1.1
Settlement of Canadian plan		3.4		
Net periodic benefit (credit) costs	**$ (0.5)**	**$ 4.2**	**$ 2.7**	**$ 1.7**

In the second quarter of fiscal 2011, the Company completed the settlement of its outstanding liabilities under the Canadian Pension Plan by purchasing non-participating annuities to service these liabilities prospectively.

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 six months ended November 30, 2011, the Company contributed $0.1 to the U.S. Pension Plan and $1.3 to the UK Pension Plan.

The Company expects, based on actuarial calculations, to contribute cash of approximately $8.4 to the Pension Plans for the fiscal year ending May 31, 2012.

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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 November 30, 2011	Three months ended November 30, 2010	Six months ended November 30, 2011	Six months ended November 30, 2010
Stock option expense	$ 3.4	$ 1.6	$ 4.8	$ 5.4
Restricted stock unit expense	2.0	0.9	2.6	2.3
Management stock purchase plan	0.2	0.5	0.2	0.5
Employee stock purchase plan	0.1	0.1	0.2	0.2
Total stock-based compensation expense	**$ 5.7**	**$ 3.1**	**$ 7.8**	**$ 8.4**

During each of the three and six-month periods ended November 30, 2011 and 2010, shares of Common Stock issued by the Corporation pursuant to its stock-based compensation plans were not material.

11. Severance and Exit Costs

The Company implemented new cost reduction initiatives, notably a voluntary retirement program, in the current fiscal year and incurred severance expense of $6.8 related to this program. The table below provides information regarding the severance cost reported in the Company s condensed consolidated statements of operations, including the costs related to this program.

Accrued severance of $2.4, $1.9 and $0.9 as of November 30, 2011, May 31, 2011 and November 30, 2010, respectively, is included in Other accrued expenses on the Company s condensed consolidated balance sheets.

	Six months ended November 30, 2011	Twelve months ended May 31, 2011	Six months ended November 30, 2010
Beginning balance	$ 1.9	$ 3.4	$ 3.4
Accruals	8.3	6.7	3.1
Payments	(7.8)	(8.2)	(5.6)
Ending balance	**$ 2.4**	**$ 1.9**	**$ 0.9**

Consistent with the Company s efforts to reduce costs and realign resources, during the three-month period ended November 30, 2011, the Company entered into sublease arrangements for certain leased properties in lower Manhattan. These subleases enable the Company to reduce utilized space, effectively reducing net rental costs prospectively. The sublease arrangements provide for rents to be paid to the Company from unrelated subtenants for the remainder of the Company s lease terms through 2018. The net rents to be received from the subtenants are less than the Company s lease commitments for these properties over the remaining term of the leases. Accordingly, the Company recognized a loss on these subleases of $6.2 in the three and six-month periods ended November 30, 2011.

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12. Treasury Stock

The Company has announced authorizations made by the Board of Directors to repurchase Common Stock, from time to time as conditions allow, on the open market or through negotiated private transactions, as summarized in the table below:

Authorization	Amount
December 2007	$ 20.0
May 2008	20.0
November 2008	10.0
February 2009	5.0
December 2009	20.0
September 2010[(a)]	44.0
Subtotal	$ 119.0
Less Repurchases made from December 2007 to November 2011	(80.1)
Remaining Board Authorization at November 30, 2011	$ 38.9

(a) Represents the remainder of $200.0 authorization after giving effect to the purchase of 5,199,699 shares at $30.00 per share pursuant to a modified Dutch auction tender offer that was completed by the Company on November 3, 2010, for a total cost of $156.0, excluding related fees and expenses. The Common shares purchased pursuant to the tender offer represented approximately 15.1% of the Common shares outstanding as of October 27, 2010. Fees for the modified Dutch auction tender offer were $1.2.

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

13. Fair Value Measurements

The accounting standard regarding fair value measurements requires that the Company determine the appropriate level in the fair value hierarchy for each fair value measurement. 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

- o Quoted prices for similar assets or liabilities in active markets
- o Quoted prices for identical or similar assets or liabilities in inactive markets
- o Inputs other than quoted prices that are observable for the asset or liability
- o 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, which were not material as of the reporting date. 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.

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

- long-lived assets
- assets acquired in a business combination
- goodwill and indefinite-lived intangible assets
- long-lived assets held for sale

Level 2 and Level 3 inputs are employed by the Company in the fair value measurement of these assets and liabilities. In fiscal 2011, the Company acquired certain assets in a business combination for $8.0, net of cash acquired. The Company has completed its purchase price allocation for this acquisition. See Note 7, Goodwill and Other Intangibles, for a discussion of the fair value measures employed in these asset impairment and acquisition analyses.

14. 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.

The Company s annual effective tax rate for the fiscal year ending May 31, 2012 is currently expected to be approximately 45%. The Company s expected full year effective tax rate exceeds statutory rates primarily as a result of net operating losses in foreign jurisdictions, mainly in the United Kingdom, where the Company does not expect to realize future tax benefits. As a result, valuation allowances are provided for the net operating loss carry forwards in these jurisdictions.

The Company recognizes tax benefits of uncertain tax positions in accordance with the current accounting guidance pertaining to uncertainty in income taxes. The Company does not currently anticipate a material change to its unrecognized tax benefits within twelve months of November 30, 2011. However, actual developments can change these expectations, including the final terms of settlement of current audits.

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 its fiscal years ended May 31, 2007, 2008 and 2009. The Company is also currently under audit by New York State for its fiscal years ended May 31, 2002, 2003 and 2004 and New York City for its 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.

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. Unrealized gains of $0.8 and $0.2 were recognized at November 30, 2011 and 2010, respectively.

16. Subsequent Event

On December 14, 2011, 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 third quarter of fiscal 2012. The dividend is payable on March 15, 2012 to shareholders of record on January 31, 2012.

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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 November 30, 2011 was $685.3 million, up 2.6% from $667.9 million in the prior fiscal year period. Net income for the quarter ended November 30, 2011 was $82.8 million, up 10.5% from $74.9 million in the prior fiscal year period. Consolidated earnings per diluted share were $2.60 per share, compared to $2.14 per diluted share in the prior year period. Improved profits reflected higher sales of educational technology and services, children s books and ebooks, and classroom and supplemental materials. During the second fiscal quarter, the Company also sustained progress on its digital growth initiatives.

In the *Educational Technology and Services* segment, revenue rose more than 30% and operating profit grew substantially driven by *READ 180* ® *Next Generation*, which continues to perform extremely well, benefitting from the version s enhanced features as well as its proven effectiveness. The Company also experienced strength in the *Children s Book Publishing and Distribution* segment driven by multiple best-selling Scholastic titles in both print and digital formats, which drove significant growth in Trade sales and higher segment profits. At the same time Scholastic moved forward with key digital initiatives, as the Company prepares to introduce a Scholastic children s ereading app and ebookstore in the school channels in the second half of the fiscal year. Further progress with cost reductions in non-digital areas continues to help offset spending on these initiatives.

The Company continues to anticipate total revenue of approximately $1.9 billion and earnings per diluted share from continuing operations in the range of $1.75 to $2.10, before the impact of one-time items associated with cost reduction programs or non-cash, non-operating items.

Results of Continuing Operations and Discontinued Operations

Revenues for the quarter ended November 30, 2011 increased by $17.4 million, or 2.6%, to $685.3 million, compared to $667.9 million in the prior fiscal year quarter, driven by higher revenues in the *Educational Technology and Services* segment, the *Classroom and Supplemental Materials Publishing* segment and the *Children s Book Publishing and Distribution* segment of $16.3 million, $6.2 million and $1.3 million, respectively, offset by lower revenues in the *Media, Licensing and Advertising* and *International* segments of $4.6 million and $1.8 million, respectively. Revenues for the six months ended November 30, 2011 increased by $45.0 million, or 4.7%, to $1,003.3 million, compared to $958.3 million in the prior year fiscal period primarily due to higher revenues in the *Educational Technology and Services* segment, the *Classroom and Supplemental Materials Publishing* segment, the *Children s Book Publishing and Distribution* segment and the *International* segment of $30.8 million, $15.4 million, $5.7 million and $4.0 million, respectively. This was offset by lower revenues in the *Media, Licensing and Advertising* segment of $10.9 million.

SCHOLASTIC CORPORATION
Item 2. MD&A

Cost of goods sold as a percentage of revenue for the quarter ended November 30, 2011 decreased to 41.7%, compared to 43.6% in the prior fiscal year quarter. Cost of goods sold as a percentage of revenue for the six months ended November 30, 2011 decreased to 44.5%, compared to 45.8% in the prior fiscal year. The decrease in both periods is primarily related to favorable product mix and decreased postage costs partially offset by increased royalty costs. Components of Cost of goods sold for the three and six months ended November 30, 2011 and 2010 are as follows:

	Three months ended November 30,		Six months ended November 30,	
	2011	2010	2011	2010
Product, service and production costs	$ 168.2	$ 176.6	$ 247.7	$ 253.7
Royalty costs	34.2	27.4	57.1	46.7
Prepublication and production amortization	12.6	12.7	24.4	24.8
Postage, freight, shipping, fulfillment and all other costs	70.7	74.5	116.9	113.3
Total	$ 285.7	$ 291.2	$ 446.1	$ 438.5

Bad debt expense increased slightly to $3.3 million for the quarter ended November 30, 2011 compared to $3.0 million in the prior fiscal year quarter. Bad debt expense decreased by $1.2 million to $4.7 million for the six months ended November 30, 2011, compared to $5.9 million in the prior fiscal year period, primarily in the *Children s Book Publishing and Distribution* segment.

During the quarter ended November 30, 2011, consistent with the Company s efforts to reduce costs and realign resources, the Company entered into sublease arrangements for certain leased properties in lower Manhattan. These subleases enable the Company to reduce utilized space, effectively reducing net rental costs by approximately $15 million through 2018. The sublease arrangements provide for rents to be paid to the Company from unrelated subtenants for the remainder of the Company s lease terms through 2018. The net rents to be received from the subtenants are less than the Company s lease commitments for these properties over the remaining term of the leases. Accordingly the Company recognized a loss on these subleases of $6.2 million in the three and six months ended November 30, 2011.

Severance expense increased by $4.0 million to $5.0 million for the quarter ended November 30, 2011, compared to $1.0 million in the prior fiscal year quarter. For the six months ended November 30, 2011, severance expense increased by $5.2 million, to $8.3 million, compared to $3.1 million in the prior year fiscal period. Of the aforementioned severance expense $4.7 million and $6.8 million related to the voluntary retirement program for the three and six-month periods ended November 30, 2011, respectively.

The resulting operating income for the quarter ended November 30, 2011 increased by $10.9 million to $140.0 million, compared to $129.1 million in the prior fiscal year quarter. For the six months ended November 30, 2011, the resulting operating income increased by $24.0 million to $106.8 million, compared to $82.8 million in the prior fiscal year period.

Net interest expense decreased by $0.1 million to $3.9 million in the quarter ended November 30, 2011, compared to $4.0 million in the prior fiscal year quarter, due to lower average borrowings. For the six months ended November 30, 2011 and November 30, 2010, net interest expense remained flat at $7.8 million.

The Company s effective tax rates were 38.8% and 38.2% for the fiscal quarters ended November 30, 2011 and 2010, and 41.2% and 42.1% for the six months ended November 30, 2011 and 2010, respectively.

SCHOLASTIC CORPORATION
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Earnings from continuing operations were $83.3 million, or $2.62 per diluted share, for the quarter ended November 30, 2011, compared to earnings of $77.1 million, or $2.20 per diluted share, for the prior year fiscal quarter. For the six months ended November 30, 2011, earnings from continuing operations were $58.2 million, or $1.83 per diluted share, compared to $43.2 million, or $1.21 per diluted share, in the prior fiscal year period.

Loss from discontinued operations, net of tax, was $0.5 million, or $0.02 per share, for the quarter ended November 30, 2011, compared to a loss of $2.2 million, or $0.06 per share, for the prior year fiscal quarter. Loss from discontinued operations for the six months ended November 30, 2011 was $2.5 million, or $0.08 per share, compared to $3.5 million, or $0.10 per share, for the prior fiscal year period. The prior year periods ended November 30, 2010 include a charge associated with the fiscal 2011 settlement of the Canada Grolier pension plan.

Net income was $82.8 million or $2.60 per diluted share, for the quarter ended November 30, 2011, compared to $74.9 million, or $2.14 per diluted share, in the prior fiscal year quarter. Net income was $55.7 million, or $1.75 per diluted share, for the six months ended November 30, 2011, compared to $39.7 million, or $1.11 per diluted share, in the prior fiscal year period.

Results of Continuing Operations

Children s Book Publishing and Distribution

($ amounts in millions)	Three months ended November 30, 2011	Three months ended November 30, 2010	Six months ended November 30, 2011	Six months ended November 30, 2010
Revenues	$ 388.6	$ 387.3	$ 465.9	$ 460.2
Operating income	108.6	97.3	58.8	45.7
Operating margin	**27.9%**	**25.1%**	**12.6%**	**9.9%**

Revenues in the *Children s Book Publishing and Distribution* segment for the quarter ended November 30, 2011 increased by $1.3 million, or 0.3%, to $388.6 million, compared to $387.3 million in the prior fiscal year quarter. This is primarily due to increased revenue in the Company s trade business driven by strong frontlist titles such as *Wonderstruck*, *The Scorpio Races* and *Can You See What I See? Toyland Express*, sales of the *The Hunger Games* trilogy, in both print and ebook formats, as well as overall favorable return rates. Revenues for the six months ended November 30, 2011 increased by $5.7 million, or 1.2%, to $465.9 million, compared to $460.2 million in the prior fiscal year period. The increase is primarily due to higher backlist sales from *The Hunger Games* trilogy. In both periods, this was partially offset by lower revenues in the Company s book clubs business driven primarily by a decrease in revenue per order partially offset by an increase in the number of orders.

Segment operating income for the quarter ended November 30, 2011 increased by $11.3 million, or 11.6%, to $108.6 million, compared to $97.3 million in the prior fiscal year quarter. Segment operating income for the six months ended November 30, 2011, increased by $13.1 million, or 28.7%, to $58.8 million, compared to $45.7 million in the prior fiscal year period. The operating income increases in both periods were principally related to the favorable results in the trade business and reduced promotional spending in the Company s book clubs business, partially offset by the Company s continued investment in its digital initiatives.

SCHOLASTIC CORPORATION
Item 2. MD&A

Educational Technology and Services

($ amounts in millions)	Three months ended November 30,		Six months ended November 30,	
	2011	**2010**	**2011**	**2010**
Revenues	$ 65.4	$ 49.1	$ 162.0	$ 131.2
Operating income	14.6	3.4	53.4	33.6
Operating margin	**22.3%**	**6.9%**	**33.0%**	**25.6%**

Revenues in the *Educational Technology and Services* segment for the quarter ended November 30, 2011 increased by $16.3 million, or 33.2%, to $65.4 million, compared to $49.1 million in the prior fiscal year quarter. Revenues for the six months ended November 30, 2011 increased by $30.8 million, or 23.5%, to $162.0 million, compared to $131.2 million in the prior fiscal year period. The increases in both periods were related to strong sales of educational technology, led by *READ 180* ® *Next Generation* and *System 44,* as well as continued strength in math and early learning products and consulting and other services.

Segment operating income for the quarter ended November 30, 2011 increased by $11.2 million to $14.6 million, compared to $3.4 million in the prior fiscal year quarter. Segment operating income for the six months ended November 30, 2011 increased by $19.8 million to $53.4 million, from $33.6 million in the prior fiscal year period. Increases in operating income for both periods were primarily related to the revenue increases noted above.

Classroom and Supplemental Materials Publishing

($ amounts in millions)	Three months ended November 30,		Six months ended November 30,	
	2011	**2010**	**2011**	**2010**
Revenues	$ 58.7	$ 52.5	$ 104.4	$ 89.0
Operating income	10.3	7.6	12.4	5.9
Operating margin	**17.5%**	**14.5%**	**11.9%**	**6.6%**

Revenues in the *Classroom and Supplemental Materials Publishing* segment for the quarter ended November 30, 2011 increased by $6.2 million, or 11.8%, to $58.7 million, compared to $52.5 million in the prior fiscal year quarter. Revenues for the six months ended November 30, 2011 increased by $15.4 million, or 17.3%, to $104.4 million, compared to $89.0 million in the prior fiscal period. The increases in both periods were primarily due to increased sales of books to literacy organizations, as well as increased sales of classroom books and classroom magazines.

Segment operating income for the quarter ended November 30, 2011 increased by $2.7 million to $10.3 million, compared to $7.6 million in the prior year fiscal quarter. Segment operating income for the six months ended November 30, 2011 increased by $6.5 million to $12.4 million, compared to $5.9 million in the prior year fiscal period. The increases in both periods were principally driven by the increase in revenues described above, partially offset by higher selling and bad debt expense.

SCHOLASTIC CORPORATION
Item 2. MD&A

International

($ amounts in millions)	Three months ended November 30,		Six months ended November 30,	
	2011	**2010**	**2011**	**2010**
Revenues	$ 144.1	$ 145.9	$ 231.8	$ 227.8
Operating income	26.6	25.3	26.5	23.1
Operating margin	**18.5%**	**17.3%**	**11.4%**	**10.1%**

Revenues in the *International* segment for the quarter ended November 30, 2011 decreased by $1.8 million to $144.1 million, compared to $145.9 million in the prior fiscal year quarter, primarily due to lower local currency revenues in the Company s Australia and New Zealand operations of $4.5 million, partially offset by the favorable impact of foreign currency exchange rates of $3.3 million. Revenues for the six months ended November 30, 2011 increased $4.0 million to $231.8 million, compared to $227.8 million during the prior fiscal year period, due to the favorable impact of foreign currency exchange rates of $13.1 million, partially offset by lower local currency revenues of $9.7 million in the Company s Australia and New Zealand operations.

Segment operating income for the quarter ended November 30, 2011 increased by $1.3 million, or 5.1% to $26.6 million, compared to $25.3 million in the prior fiscal year quarter. Segment operating income for the six months ended November 30, 2011 increased by $3.4 million, or 14.7% to $26.5 million, compared to $23.1 million in the prior fiscal year period related to the favorable impact of foreign currency exchange rates, as well as improved results in the Company s UK operations.

Media, Licensing and Advertising

($ amounts in millions)	Three months ended November 30,		Six months ended November 30,	
	2011	**2010**	**2011**	**2010**
Revenues	$ 28.5	$ 33.1	$ 39.2	$ 50.1
Operating income (loss)	2.6	5.2	(2.4)	3.0
Operating margin	**9.1%**	**15.7%**	*	**6.0%**

* Not meaningful

Revenues in the *Media, Licensing and Advertising* segment for the quarter ended November 30, 2011 decreased by $4.6 million to $28.5 million, compared to $33.1 million in the prior fiscal year quarter, primarily due a planned decrease in custom marketing programs for third party sponsors, partially offset by increased production revenues. Revenues for the six months ended November 30, 2011 decreased by $10.9 million to $39.2 million, compared to $50.1 million in the prior year fiscal period, primarily due to the decrease in consumer marketing programs, higher production revenues in the prior year and the timing of sales from interactive products.

Segment operating income for the quarter ended November 30, 2011 decreased by $2.6 million to $2.6 million, compared to $5.2 million in the prior fiscal year quarter. Segment operating loss for the six months ended November 30, 2011 was $2.4 million, compared to segment operating income of $3.0 million for the prior fiscal year period. The lower results in both periods were primarily driven by the planned reduction in custom marketing programs noted above.

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 are highest in the first and fourth quarters. The Company typically experiences losses from operations in the first and third quarters of each fiscal year.

Liquidity and Capital Resources

The Company s cash and cash equivalents totaled $114.0 million at November 30, 2011, compared to $105.3 million at May 31, 2011 and $54.4 million at November 30, 2010.

Cash provided by operating activities improved by $24.3 million to $107.8 million for the six months ended November 30, 2011, compared to $83.5 million in the prior fiscal year period. Primary drivers of the improvement include the higher sales and earnings of *READ 180® Next Generation* from the *Educational Technology and Services* segment and increased deferred revenue from this segment. The *Educational Technology and Services* segment defers revenue related to services until the services are rendered to the customer, even if payment for these services has been received by the Company. Cash from operations was also positively impacted by sales and earnings of Children s books and ebooks through the trade channel.

These favorable variances to cash provided by operations were partially offset by increases in inventory levels. The Company continues to manage its required inventory levels to meet demand and has seasonally increased inventory by $83.5 million for the current fiscal year compared to an increase in the prior fiscal year of $60.1 million. Additionally, the Company experienced net income tax payments in the prior fiscal year of $11.7 million, while experiencing net income tax refunds in the current fiscal year of $3.2 million.

Cash used in investing activities decreased by $34.9 million to $46.2 million for the six months ended November 30, 2011, compared to $81.1 million in the prior fiscal year period. In the prior fiscal year, the Company spent $24.3 million on a land purchase and $9.2 million for business acquisitions. The Company continues to invest in its ongoing digital initiatives via property, plant and equipment development and purchases, and prepublication costs.

Cash used in financing activities was $51.8 million for the six months ended November 30, 2011, driven by lower overall borrowings of $43.4 million as the Company moved past its peak seasonal borrowing period in October. The Company also used $5.0 million of cash to reacquire its common stock and used $6.2 million to pay dividends. During the six months ended November 30, 2010, Cash used in financing activities was $195.4 million, with the Company using $165.7 million of cash to reacquire its common stock, through open market purchases and a modified Dutch auction tender offer, and paying dividends of $5.4 million.

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

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 will be sufficient to finance its short-and long-term capital requirements for the foreseeable future.

The Company has maintained sufficient liquidity to fund ongoing operations, dividends, authorized common share repurchases, debt service, planned capital expenditures and other investments. As of November 30, 2011, the Company s primary sources of liquidity consisted of cash and cash equivalents of $114.0 million, cash from operations, and borrowings available under the Revolving Loan (as described under Financing below) totaling $325.0 million. Of the Company s outstanding debt, 96% is not due until fiscal 2013. 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). The Company s credit rating from Standard & Poor s Rating Services is BB- and its credit rating from Moody s Investors Service is Ba2. Moody s Investors Service has rated the outlook for the Company as Positive, and Standard and Poor s Rating Services has rated the outlook for the Company as Stable. The Company believes that existing committed credit lines and the ability to obtain similar financing credit upon expiration of current commitments, cash from operations and other sources of cash are sufficient to meet the Company s ongoing operating needs. 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 dependent upon the Company s Consolidated Debt Ratio, 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.

Financing

Lines of Credit

As of November 30, 2011, the Company s domestic credit lines available under unsecured money market bid rate credit lines totaled $20.0 million. There were no outstanding borrowings under these credit lines at November 30, 2011, May 31, 2011 and November 30, 2010. All loans made under these credit lines are at the sole discretion of the lender and at an interest rate and term agreed to at the time each loan is made, but not to exceed 365 days. These credit lines may be renewed, if requested by the Company, at the option of the lender.

As of November 30, 2011, the Company had various local currency credit lines, with maximum available borrowings in amounts equivalent to $34.1 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 $5.7 million at November 30, 2011 at a weighted average interest rate of 3.7%; $0.7 million at May 31, 2011 at a weighted average interest rate of 6.7%; and $7.2 million at November 30, 2010 at a weighted average interest rate of 4.0%. The increased weighted average interest rate at the end of fiscal 2011 was due to higher local borrowing interest rates in Asia.

SCHOLASTIC CORPORATION
Item 2. MD&A

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). The Loan Agreement was amended on August 16, 2010, and again on October 25, 2011. The October 25, 2011 amendment effectively extended the maturity of the Revolving Loan facility to June 1, 2014 from June 1, 2012 and provided for the repayment of the outstanding balance of the Term Loan on October 25, 2011.

The Loan Agreement, as amended, is a contractually committed unsecured credit facility that is scheduled to expire on June 1, 2014. The $325.0 million 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. The Loan Agreement also provides for an increase in the aggregate Revolving Loan commitments of the lenders of up to an additional $150.0 million.

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 Ratio, as defined in the Loan Agreement.

- 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 Ratio, as defined in the Loan Agreement.

As of November 30, 2011, the indicated spread on Base Rate Advances was 0.25% and the indicated spread on Eurodollar Rate Advances was 1.25%, both based on the Company s prevailing Consolidated Debt Ratio. There were no Revolving Loan Advances outstanding on November 30, 2011.

The Loan Agreement also provides for the payment of a facility fee ranging from 0.20% to 0.40% per annum. At November 30, 2011, the facility fee rate was 0.25%.

As of November 30, 2011, 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 November 30, 2011, the Company was in compliance with these covenants.

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 additional repurchases during the six-month period ended November 30, 2011.

The Company s total debt obligations were $158.4 million at November 30, 2011, $203.4 million at May 31, 2011 and $231.2 million at November 30, 2010. The lower level of debt at November 30, 2011 was primarily due to the payment of the Term Loan and reduced borrowings resulting from lower debt requirements.

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.

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.

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, conditions in the children s book and educational material markets and acceptance of the Company s products in those markets, earnings per share, levels of government spending for educational programs, e-commerce and digital initiatives strategies, goals, revenues, sublease income, improved efficiencies, general costs, manufacturing costs, medical costs, merit pay, operating margins, working capital, liquidity, capital needs, expected investing activity, interest costs and income, are subject to risks and uncertainties that could cause actual results to differ materially from those indicated in the forward-looking statements, due to factors including those noted in the Annual Report and other risks and factors identified from time to time in the Company s filings with the SEC.

The Company disclaims any intention or obligation to update or revise forward-looking statements, whether as a result of new information, future events or otherwise.

SCHOLASTIC CORPORATION
Item 3. Quantitative and Qualitative Disclosures about Market Risk

The Company conducts its business in various foreign countries, and as such, its cash flows and earnings are subject to fluctuations from changes in foreign currency exchange rates. The Company 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 November 30, 2011, these transactions were 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 4% of the Company s debt at November 30, 2011 bore interest at a variable rate and was sensitive to changes in interest rates, compared to approximately 25% at May 31, 2011 and 34% at November 30, 2010. The decrease in variable-rate debt as of November 30, 2011 compared to May 31, 2011 and November 30, 2010, was primarily due to repayments made on the Term Loan. 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 November 30, 2011 (see Note 4 of Notes to condensed consolidated financial statements - unaudited in Item 1, Financial Statements):

($ amounts in millions)	**Fiscal Year Maturity**						
	2012 (1)	**2013**	**2014**	**2015**	**2016**	**Thereafter**	**Total**
Debt Obligations							
Lines of Credit	$ 5.7	$	$	$	$	$	$ 5.7
Average interest rate	3.7%						
Long-term debt including current							
Fixed-rate debt	$	$ 153.0	$	$	$	$	$ 153.0
Interest rate		5.0%					

(1) Fiscal 2012 includes the remaining six months of the current fiscal year, ending May 31, 2012.

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 November 30, 2011, 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 November 30, 2011 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 November 30, 2011:

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)
September 1, 2011 through September 30, 2011		$		$ 44.5
October 1, 2011 through October 31, 2011	714	$ 27.00	714	$ 44.5
November 1, 2011 through November 30, 2011	219,452	$ 25.55	219,452	$ 38.9
Total	220,166	$ 25.55	220,166	

(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 $44.5 million at September 1, 2011 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. 2, dated as of October 25, 2011 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.
**10.1	Scholastic Corporation 2011 Stock Incentive Plan.
**10.2	Form of Non-Qualified Stock Option Agreement under the Scholastic Corporation 2011 Stock Incentive Plan.
**10.3	Form of Restricted Stock Unit Agreement under the Scholastic Corporation 2011 Stock Incentive Plan.
31.1	Certification of the Chief Executive Officer of Scholastic Corporation filed pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of the Chief Financial Officer of Scholastic Corporation filed pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32	Certifications of the Chief Executive Officer and Chief Financial Officer of Scholastic Corporation furnished pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101.INS	XBRL Instance Document *
101.SCH	XBRL Taxonomy Extension Schema Document *
101.CAL	XBRL Taxonomy Extension Calculation Document *
101.DEF	XBRL Taxonomy Extension Definitions Document *
101.LAB	XBRL Taxonomy Extension Labels Document *
101.PRE	XBRL Taxonomy Extension Presentation Document *

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

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

SCHOLASTIC CORPORATION
SIGNATURES

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

		SCHOLASTIC CORPORATION (Registrant)
Date: December 22, 2011	By:	/s/ Richard Robinson
		Richard Robinson *Chairman of the Board,* *President and Chief* *Executive Officer*
Date: December 22, 2011	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 NOVEMBER 30, 2011
Exhibits Index

Exhibit Number	Description of Document
4.1	Amendment No. 2 to the Scholastic Corporation Credit Agreement.
**10.1	Scholastic Corporation 2011 Stock Incentive Plan.
**10.2	Form of Non-Qualified Stock Option Agreement under the Scholastic Corporation 2011 Stock Incentive Plan.
**10.3	Form of Restricted Stock Unit Agreement under the Scholastic Corporation 2011 Stock Incentive Plan.
31.1	Certification of the Chief Executive Officer of Scholastic Corporation filed pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of the Chief Financial Officer of Scholastic Corporation filed pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32	Certifications of the Chief Executive Officer and Chief Financial Officer of Scholastic Corporation furnished pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101.INS	XBRL Instance Document *
101.SCH	XBRL Taxonomy Extension Schema Document *
101.CAL	XBRL Taxonomy Extension Calculation Document *
101.DEF	XBRL Taxonomy Extension Definitions Document *
101.LAB	XBRL Taxonomy Extension Labels Document *
101.PRE	XBRL Taxonomy Extension Presentation Document *

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

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