

SCHOLASTIC CORP
Form 10-K
July 30, 2009

United States
Securities and Exchange Commission

Washington, D.C. 20549

Form 10-K

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

For the fiscal year ended May 31, 2009 | Commission File No. 000-19860

Scholastic Corporation

(Exact name of Registrant as specified in its charter)

Delaware

(State or other jurisdiction of
incorporation or organization)

13-3385513

(IRS Employer Identification No.)

557 Broadway, New York, New York

(Address of principal executive offices)

10012

(Zip Code)

Registrant's telephone number, including area code: (212) 343-6100
Securities Registered Pursuant to Section 12(b) of the Act:

| Title of class | Name of Each Exchange on Which Registered |
|--------------------------------|---|
| Common Stock, \$0.01 par value | The NASDAQ Stock Market LLC |

Securities Registered Pursuant to Section 12(g) of the Act:

NONE

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

Indicate by check mark if the Registrant is not required to file reports pursuant to Section 13 or Section 15(d) of Act.
Yes No

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (229.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Edgar Filing: SCHOLASTIC CORP - Form 10-K

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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

Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company
Indicate by check mark whether the Registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes No

The aggregate market value of the Common Stock, par value \$0.01, held by non-affiliates as of November 30, 2008, was approximately \$480,506,205. As of such date, non-affiliates held no shares of the Class A Stock, \$0.01 par value. There is no active market for the Class A Stock.

The number of shares outstanding of each class of the Registrant's voting stock as of June 30, 2009 was as follows: 34,736,024 shares of Common Stock and 1,656,200 shares of Class A Stock.

Documents Incorporated By Reference

Part III incorporates certain information by reference from the Registrant's definitive proxy statement for the Annual Meeting of Stockholders to be held September 23, 2009.

Table of Contents

| | PAGE |
|---|------|
| <u>Part I</u> | |
| <u>Item 1.</u> <u>Business</u> | 1 |
| <u>Item 1A.</u> <u>Risk Factors</u> | 10 |
| <u>Item 1B.</u> <u>Unresolved Staff Comments</u> | 13 |
| <u>Item 2.</u> <u>Properties</u> | 13 |
| <u>Item 3.</u> <u>Legal Proceedings</u> | 14 |
| <u>Item 4.</u> <u>Submission of Matters to a Vote of Security Holders</u> | 14 |
| <u>Part II</u> | |
| <u>Item 5.</u> <u>Market for the Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities</u> | 15 |
| <u>Item 6.</u> <u>Selected Financial Data</u> | 17 |
| <u>Item 7.</u> <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u> | 18 |
| <u>Item 7A.</u> <u>Quantitative and Qualitative Disclosures about Market Risk</u> | 35 |
| <u>Item 8.</u> <u>Consolidated Financial Statements and Supplementary Data</u> | 36 |
| <u>Consolidated Statements of Operations</u> | 37 |
| <u>Consolidated Balance Sheets</u> | 38 |
| <u>Consolidated Statements of Changes in Stockholders' Equity and Comprehensive Income (Loss)</u> | 40 |
| <u>Consolidated Statements of Cash Flows</u> | 42 |
| <u>Notes to Consolidated Financial Statements</u> | 44 |
| <u>Reports of Independent Registered Public Accounting Firm</u> | 72 |
| <u>Supplementary Financial Information</u> | 74 |
| <u>Item 9.</u> <u>Changes in and Disagreements with Accountants on Accounting and Financial Disclosure</u> | 75 |
| <u>Item 9A.</u> <u>Controls and Procedures</u> | 75 |
| <u>Item 9B.</u> <u>Other Information</u> | 76 |
| <u>Part III</u> | |
| <u>Item 10.</u> <u>Directors, Executive Officers and Corporate Governance</u> | 77 |
| <u>Item 11.</u> <u>Executive Compensation</u> | 77 |
| <u>Item 12.</u> <u>Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters</u> | 77 |
| <u>Item 13.</u> <u>Certain Relationships and Related Transactions, and Director Independence</u> | 77 |
| <u>Item 14.</u> <u>Principal Accounting Fees and Services</u> | 77 |
| <u>Part IV</u> | |
| <u>Item 15.</u> <u>Exhibits, Financial Statement Schedules</u> | 78 |
| <u>Signatures</u> | 81 |
| <u>Power of Attorney</u> | 81 |
| <u>Schedule II: Valuation and Qualifying Accounts and Reserves</u> | S-2 |

Part I

Item 1 | Business

Overview

Scholastic Corporation (the Corporation and together with its subsidiaries, Scholastic or the Company) is a global children's publishing, education and media company. Since its founding in 1920, Scholastic has emphasized quality products and a dedication to reading and learning. The Company is the world's largest publisher and distributor of children's books and a leading developer of educational technology products. Scholastic also creates quality educational and entertainment materials and products for use in school and at home, including magazines, children's reference and non-fiction materials, teacher materials, television programming, film, videos and toys. The Company is a leading operator of school-based book clubs and book fairs in the United States. It distributes its products and services through these proprietary channels, as well as directly to schools and libraries, through retail stores and through the internet. The Company's website, scholastic.com, is a leading site for teachers, classrooms and parents and an award-winning destination for children. In addition to its operations in the United States, Scholastic has long-established operations in Canada, the United Kingdom, Australia, New Zealand and Asia and newer operations in China, India and Ireland and, through its export business, sells products in over 140 countries.

During fiscal 2008, the Company determined to sell or shut down its domestic, Canadian and UK continuities businesses, and intends to sell a related warehousing and distribution facility located in Maumelle, Arkansas (the Maumelle Facility) and an office and distribution facility in Danbury, Connecticut (the Danbury Facility). During fiscal 2009, the Company also ceased its operations in Argentina and Mexico, its door-to-door selling operations in Puerto Rico as well as its continuities business in Australia and New Zealand and its corporate book fairs business, and closed its Scarsdale, NY store. The Company also sold a trade magazine. Additionally, the Company sold a non-core market research business and a non-core online resource for teachers business and intends to sell a Spanish language book channel. All of the above businesses are classified as discontinued operations in the Company's financial statements. All other amounts included herein, unless noted, are attributable to continuing operations.

Reportable Segments – Continuing Operations

The Company categorizes its businesses into four reportable segments: *Children's Book Publishing and Distribution*; *Educational Publishing*; *Media, Licensing and Advertising* (which collectively represent the Company's domestic operations); and *International*. Revenues and operating margin related to a segment's products sold or services rendered through another segment's distribution channel are reallocated to the segment originating the products or services.

The following table sets forth revenues by reportable segment for the three fiscal years ended May 31:

| | (Amounts in millions) | | |
|---|-----------------------|-------------------|-------------------|
| | 2009 | 2008 | 2007 |
| Children's Book Publishing and Distribution | \$ 913.5 | \$ 1,161.4 | \$ 928.2 |
| Educational Publishing | 384.2 | 407.1 | 406.2 |
| Media, Licensing and Advertising | 152.6 | 140.8 | 148.7 |
| International | 399.0 | 449.8 | 387.5 |
| Total | \$ 1,849.3 | \$ 2,159.1 | \$ 1,870.6 |

Additional financial information relating to the Company's reportable segments is included in Note 3 of Notes to Consolidated Financial Statements in Item 8, Consolidated Financial Statements and Supplementary Data, which is included herein.

CHILDREN'S BOOK PUBLISHING AND DISTRIBUTION
(49.4% of fiscal 2009 revenues)

General

The Company's *Children's Book Publishing and Distribution* segment operates as an integrated business which includes the publication and distribution of children's books in the United States through school-based book clubs and book fairs and the trade channel.

The Company is the world's largest publisher and distributor of children's books and is the largest operator of school-based book clubs and school-based book fairs in the United States. The Company is also a leading publisher of children's books distributed through the trade channel. In fiscal 2009, the Company, excluding its discontinued operations, published or distributed approximately 320 million children's books in the United States.

Scholastic offers a broad range of children's books, many of which have received awards for excellence in children's literature, including the Caldecott and Newbery Medals.

The Company obtains titles for sale through its distribution channels from three principal sources. The first source for titles is the Company's publication of books created under exclusive agreements with authors, illustrators, book packagers or other media companies. Scholastic generally controls the exclusive rights to sell these titles through all channels of distribution in the United States and, to a lesser extent, internationally. Scholastic's second source of titles is licenses to publish books exclusively in specified channels of distribution, including reprints of books originally published by others for which the Company acquires rights to sell in the school market. The third source of titles is the Company's purchase of finished books from other publishers to be sold in the school market.

School-Based Book Clubs

Scholastic founded its first school-based book club in 1948. The Company's school-based book clubs consist of Honeybee[®], serving children ages 1½ to 4; Firefly[®], serving pre-kindergarten (pre-K) and kindergarten (K) students; SeeSaw[®], serving students grades K to 1; Lucky[®], serving students grades 2 to 3; Arrow[®], serving students grades 4 to 6; TAB[®], serving students grades 7 to 12; and Club Leo, which provides Spanish language offers to students in pre-K to grade 8. In addition to its regular offers, the Company creates special theme-based and seasonal offers targeted to different grade levels during the year.

The Company mails promotional materials containing order forms to teachers in the vast majority of the pre-K to grade 8 schools in the United States. Teachers who wish to participate in a school-based book club distribute the order forms to their students, who may choose from selections at substantial reductions from list prices. The teacher aggregates the students' orders and forwards them to the Company by internet, phone, mail or fax. The Company estimates that approximately two out of three elementary school teachers in the United States participate in the Company's school-based book clubs. In fiscal 2009, orders through the internet accounted for 62% of total book club orders. The orders are then shipped to the classroom for distribution to the students. Schools who participate in the book clubs receive bonus points and other promotional incentives, which may be redeemed for the purchase of additional books and other resource materials for their classrooms or the school.

School-Based Book Fairs

The Company began offering school-based book fairs in 1981 to its school customers. Since that date, the Company has grown this business by expanding into new markets, including through selected acquisitions. In addition, more recently the Company has increased its business in its existing markets by (i) growing revenue on a per fair basis and (ii) increasing the number of fairs held at its existing school customers. The Company is the leading operator of school-based book fairs in the United States.

Book fairs are generally week-long events conducted on school premises, operated by school librarians and/or parent-teacher organizations. Book fair events

provide children with access to hundreds of titles and allow them to purchase books and other select products at the school. The Company provides such products to the schools for resale, and the schools conduct the book fairs as fundraisers for a variety of purposes, such as to purchase books, supplies and equipment for the school, and to make quality books available to their students in order to stimulate interest in reading.

The Company operates school-based book fairs in all 50 states under the name Scholastic Book Fairs[®]. Books and display cases are delivered to schools from the Company's warehouses principally by a fleet of leased vehicles. Sales and customer service functions are performed from regional sales offices and distribution facilities supported by field representatives and from the Company's national distribution facility in Missouri. Approximately 90% of the schools that sponsored a Scholastic book fair in fiscal 2008 sponsored a Scholastic book fair again in fiscal 2009.

Beginning in the Fall of 2009, the Company will deploy a new Point of Sale (POS) solution in approximately 25% of its book fairs. POS represents a strategic capital investment designed to provide improved inventory control and utilization and enhance school-based financial reporting as well as real time product sales visibility. A pilot program was conducted in the Spring of 2009 in over 500 fairs with positive results for the participating schools and book fairs.

Trade

Scholastic is a leading publisher of children's books sold through bookstores and mass merchandisers in the United States. The Company maintains approximately 6,000 titles for trade distribution. Scholastic's original publications include *Harry Potter*[®], *The 39 Clues*[™], *The Magic School Bus*[®], *I Spy*, *Captain Underpants*[®], *Goosebumps*[®], and *Clifford The Big Red Dog*[®], and licensed properties such as *Star Wars*[®], *Rainbow Magic*[®], *Littlest Pet Shop*[®], and *Bakugan*[®]. In addition, the Company's Klutz[®] imprint is a publisher and creator of books plus products for children, including titles such as *Paper Fashions*, *Friendship Bracelets*, *Klutz Encyclopedia of Immaturity* and *How to Make Paper Airplanes*.

The Company's trade sales organization focuses on marketing and selling Scholastic's publishing properties to bookstores, mass merchandisers, specialty sales outlets and other book retailers. Scholastic bestsellers during fiscal 2009 included books from *The 39 Clues* series, the *Harry Potter* series, Meg Cabot's *Allie Finkle's Rules for Girls* series, *Goosebumps Horrorland* series and other titles, such as *The Hunger Games* by Suzanne Collins and *Inkdeath* by Cornelia Funke.

EDUCATIONAL PUBLISHING

(20.8% of fiscal 2009 revenues)

General

The Company's *Educational Publishing* segment includes the production and/or publication and distribution to schools and libraries of educational technology products, curriculum materials, children's books, classroom magazines and print and on-line reference and non-fiction products for pre-K to grade 12 in the United States.

The Company is a leading provider of educational technology products and reading materials for schools and libraries. Scholastic has been providing quality, innovative educational materials to schools and libraries since it began publishing classroom magazines in the 1920s. The Company added supplementary books and texts to its product line in the 1960s, professional books for teachers in the 1980s and early childhood products and core curriculum materials, including educational technology products, in the 1990s. In 2002, the Company acquired Tom Snyder Productions, Inc., a developer and publisher of interactive educational software. The Company markets and sells its *Educational Publishing* products through a combination of field representatives, direct mail, telemarketing and the internet. In 2007, the Company began providing school consulting and professional development services.

Curriculum Publishing and Educational Technology

Scholastic's curriculum publishing operations develop and distribute instructional materials directly to schools in the United States, primarily purchased through school and district budgets. These core curriculum operations include reading improvement programs and educational technology products.

The Company focuses its core curriculum publishing efforts on reading improvement materials and the effective use of technology to support learning. Scholastic's technology-based reading improvement programs include READ 180, an intensive reading intervention program for students in grades 4 to 12 reading at least two years below grade level, Scholastic Reading Inventory, which is a research-based, computer-adaptive assessment for grades K to 12 that allows educators to assess a student's reading comprehension, System 44, an intensive intervention program for students in grades 4 to 12 who have not yet mastered the 44 sounds and 26 letters of the English language, ReadAbout® for grades 3 to 6, which combines adaptive technology with engaging non-fiction content, Scholastic Reading Counts!®, which encourages reading through a school-managed incentive program, and FASTT Math®, a technology-based program to improve math fluency, developed with the creator of READ 180, as well as Grolier Online, which provides subscriptions to reference databases for schools and libraries. The Company considers its educational technology solutions business, which provides software products, backed by implementation services, tech support and consulting, to be a growth driver, based on the increasing reliance of schools on technology products which support teaching and learning.

Scholastic Classroom and Library Publishing

The Company distributes paperback collections to schools and school districts for classroom libraries and other uses, as well as to literacy organizations. Scholastic is a leading publisher of quality children's reference and non-fiction products sold primarily to schools and libraries in the United States. The Company's products also include non-fiction books published in the United States under the imprints Children's Press® and Franklin Watts®, including books from the *America the Beautiful*, *Enchantment of the World* and *True Books* series.

Scholastic is a leading publisher of classroom magazines. Teachers in grades pre-K to 12 use these magazines as supplementary educational materials. The Company's 30 classroom magazines supplement formal learning programs by bringing subjects of current interest into the classroom. The magazines are designed to encourage students to read and also to cover diverse subjects, including literature, math, science, current events, social studies and foreign languages. The most well-known of the Company's domestic magazines are *Scholastic News*® and *Junior Scholastic*®.

Scholastic's classroom magazine circulation in the United States in fiscal 2009 was more than 8.1 million, with approximately two-thirds of the circulation in grades pre-K to 6. In fiscal 2009, teachers in approximately 64% of the schools in the United States used the Company's classroom magazines. The various classroom magazines are distributed either on a weekly, biweekly or monthly basis during the school year and are supplemented by timely materials featured on the Company's website, scholastic.com. The majority of the magazines purchased are paid for with school or district funds, with teachers or students paying for the balance. Circulation revenue accounted for substantially all of the classroom magazine revenues in fiscal 2009.

Teaching Resources

The Company publishes and sells professional books designed for and generally purchased by teachers, both directly from the Company and through teacher stores and booksellers. The Company also operates its own on-line Teacher Store, which provides professional books and other educational materials to schools and teachers. Scholastic.com is a leading website for teachers and classrooms, offering multimedia teaching units, lesson plans, teaching tools and on-line activities.

MEDIA, LICENSING AND ADVERTISING

(8.2% of fiscal 2009 revenues)

General

The Company's *Media, Licensing and Advertising* segment includes the production and/or distribution of media, merchandising and advertising revenue, including sponsorship programs and consumer promotions.

Production and Distribution

Through Scholastic Entertainment Inc. (SEI), Soup2Nuts Inc. (S2N) and the Weston Woods Studios Company's entertainment and media division creates and produces television programming, videos/ DVD's, feature films, and branded websites. SEI builds consumer awareness and value for the Company's franchises by creating family-focused media that form the basis for global branding campaigns. Scholastic generates revenue by using these assets globally across multiple media formats and by developing and executing brand-marketing campaigns.

SEI has built a television library of half-hour productions, including: *Clifford The Big Red Dog*®, *Clifford's Puppy Days*, *Word Girl*®, *Maya & Miguel*, *The Magic School Bus*®, *Turbo Dogs*, *I Spy*, *Goosebumps*®, *Animorphs*®, *Dear America*®, *Horrible Histories*, *Sammy's Storyshop*, *Stellaluna*, *The Very Hungry Caterpillar* and *The Baby-sitters Club*®. These series have been sold in the United States and throughout the world. These productions have garnered over 125 major awards including Emmy, Peabody and Academy awards. Since 2007, the Company has participated in a children's programming venture which distributes educational children's television programming under the name Qubo. Qubo features bilingual content with a mission to promote literacy and values in children's television. Qubo provides programming on NBC and Telemundo as well as a branded 24/7 digital channel and is now in its third year affording distribution for SEI's television programming and generating awareness for the Scholastic brand.

S2N, an award-winning producer of animated television and web programming, has produced half-hour episodes of television programming, including the animated series *Time Warp Trio* and *O Grady*. In fiscal 2009, S2N with SEI produced 13 additional half-hour episodes of the Emmy award-winning animated series *WordGirl*.

Weston Woods Studios creates audiovisual adaptations of classic children's picture books, such as *Where the Wild Things Are*, *Chrysanthemum* and *Make Way for Ducklings*, which were initially produced for the school and library market as a supplemental educational resource. SEI has repackaged over 60 titles for sale to the consumer market under the newly rebranded Scholastic Storybook Treasures banner. Weston Woods Studios has received numerous awards, including nine Andrew Carnegie Medals for Excellence in Children's Video and an Academy Award nomination.

Brand Marketing and Consumer Products

Scholastic Media creates and develops award-winning global branding campaigns for Scholastic properties in order to extend and strengthen Scholastic's consumer connection with parents, children and teachers. In 2009, Scholastic Media designed and managed consumer product campaigns for key brands including *The 39 Clues*, *Clifford the Big Red Dog*®, *Goosebumps*, *WordGirl*, *The Magic School Bus*®, *I Spy* and *Maya & Miguel*.

Software and Interactive Products

Scholastic Media creates and distributes original and licensed consumer software, handheld, and console products with accessories, for grades K to 8 through the Company's school-based software clubs, book clubs and book fairs, as well as the library/teacher market and the trade market. In addition, the Company acquires software and interactive products for distribution in all of these channels through a combination of licensing, purchases of product from software publishers and internal development. The Company's CD-ROM, Nintendo DS, Nintendo Wii, PlayStation 2, Leapster, Tag and Tag Junior titles include the award-winning series *I Spy*, *Brain Play*®, *Clifford*®, *Goosebumps*®, *Animal Genius* and *Math Missions*®.

Advertising

Certain of the Company's magazine properties generate advertising revenues as their primary source of revenue, including *Instructor*® and *Scholastic Administrator*, which are directed to education professionals and are distributed during the academic year. Subscriptions for these magazines are solicited primarily by direct mail, with total circulation of approximately 265,000 in fiscal 2009. *Scholastic Parent and Child*® magazine, which is directed at parents and distributed through schools and childcare programs, had circulation of approximately 1.3 million in fiscal 2009. These magazines carry paid advertising (both on the web and in print), advertising for Scholastic products and paid advertising for clients that sponsor customized programs.

Other

Also included in this segment are: Scholastic In-School Marketing, which develops sponsored educational materials and supplementary classroom programs in partnership with corporations, government agencies and nonprofit organizations; and Back to Basics Toys®, a direct-to-home catalog business specializing in children's toys.

INTERNATIONAL

(21.6% of fiscal 2009 revenues)

General

The *International* segment 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.

Scholastic has long-established operations in Canada, the United Kingdom, Australia, New Zealand and portions of Asia and also has newer operations in China, India and Ireland. Scholastic's operations in Canada, the United Kingdom and Australia generally mirror its United States business model. The Company's international operations have original trade and educational publishing programs; distribute children's books, software and other materials through school-based book clubs, school-based book fairs and trade channels; distribute magazines; and offer on-line services. Many of the Company's international operations also have their own export and foreign rights licensing programs and are book publishing licensees for major media properties. Original books published by most of these operations have received awards of excellence in children's literature. In Asia, the Company primarily publishes and distributes reference products and provides services under the Grolier name, and operates tutorial centers that provide English language training to students.

Canada

Scholastic Canada, founded in 1957, is a leading publisher and distributor of English and French language children's books, is the largest school-based book club and school-based book fair operator in Canada and is one of the leading suppliers of original or licensed children's books to the Canadian trade market. Since 1965, Scholastic Canada has also produced quality Canadian-authored books and educational materials, including a widely used instructional reading program for grades K to 6.

United Kingdom

Scholastic UK, founded in 1964, is the largest school-based book club and school-based book fair operator and a leading children's publisher in the United Kingdom. Scholastic UK also publishes magazines for teachers and supplemental educational materials, including professional books and is one of the leading suppliers of original or licensed children's books to the United Kingdom trade market.

Australia

Scholastic Australia, founded in 1968, is the largest school-based book club and book fair operation in Australia, reaching approximately 90% of the country's primary schools. Scholastic Australia publishes quality children's books supplying the Australian trade market. Scholastic Australia also provides value-added distribution services for the software market.

New Zealand

Scholastic New Zealand, founded in 1962, is the largest children's book publisher and the leading book distributor to schools in New Zealand. Through its school-based book clubs and book fairs, Scholastic New Zealand reaches approximately 90% of the country's primary schools. In addition, Scholastic New Zealand provides value-added distribution services for the software market.

Asia

The Company's Asia operations primarily sell English language reference materials and local language products through a network of over 1,600 independent door-to-door sales representatives in India, Indonesia, Malaysia, the Philippines, Singapore and Thailand. In India, the Company also operates school-based book clubs and book fairs and publishes original titles in the English and Hindi languages. In the Philippines, the Company also operates school-based book fairs, and in Malaysia, the Company operates school-based book clubs. The Company operates a book club in China, and in cooperation with local companies, also operates tutorial centers that provide English language training to students.

Foreign Rights and Export

The Company licenses the rights to selected Scholastic titles in over 45 languages to other publishing companies around the world. The Company's export business sells educational materials, software and children's books to schools, libraries, bookstores and other book distributors in over 140 countries that are not otherwise directly serviced by Scholastic subsidiaries. The Company partners with governments and non-governmental agencies to create and distribute books to schools in developing countries, including, for example, the sale of Arabic books to schools in Iraq and other Middle Eastern countries.

PRODUCTION AND DISTRIBUTION

The Company's books, magazines, software and interactive products and other materials and products are manufactured by the Company with the assistance of third parties under contracts entered into through arms-length negotiations or competitive bidding. As appropriate, the Company enters into multi-year agreements that guarantee specified volume in exchange for favorable pricing terms. Paper is purchased from paper mills and other third-party sources. The Company does not anticipate any difficulty in continuing to satisfy its manufacturing and paper requirements.

In the United States, the Company mainly processes and fulfills school-based book club, trade, curriculum publishing, reference and non-fiction products and export orders from its primary warehouse and distribution facility in Jefferson City, Missouri. Magazine orders are processed at the Jefferson City facility and are shipped directly from printers.

In connection with its trade business, the Company generally outsources certain services, including invoicing, billing, returns processing and collection services. School-based book fair orders are fulfilled through a network of warehouses across the country. The Company's international school-based book club, school-based book fair, trade, and educational operations use distribution systems similar to those employed in the US.

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 quarter of the fiscal year, while revenues from the sale of instructional materials and educational technology products are typically highest in the first quarter. The Company historically has experienced a loss from operations in the first and third quarters of each fiscal year.

COMPETITION

The markets for children's educational, educational technology and entertainment materials are highly competitive. Competition is based on the quality and range of materials made available, price, promotion,

customer service, and distribution channels. Competitors include numerous other book, textbook, library, reference material and supplementary text publishers, distributors and other resellers (including over the internet) of children's books and other educational materials, national publishers of classroom and professional magazines with substantial circulation, numerous producers of television, video and film programming (many of which are substantially larger than the Company), television and cable networks, publishers of computer software and interactive products, and distributors of products and services on the internet. In the United States, competitors also include regional and local school-based book fair operators, other fundraising activities in schools, and bookstores. Competition may increase to the extent that other entities enter the market and to the extent that current competitors or new competitors develop and introduce new materials that compete directly with the products distributed by the Company or develop or expand competitive sales channels. The Company believes that its position as both a publisher and distributor are unique to the markets in which it competes.

COPYRIGHT AND TRADEMARKS

As an international publisher and distributor of books, software and other media products, Scholastic aggressively utilizes the intellectual property protections of the United States and other countries in order to maintain its exclusive rights to identify and distribute many of its products. Accordingly, SCHOLASTIC is a trademark registered in the United States and in a number of countries where the Company conducts business. The Corporation's principal operating subsidiary in the United States, Scholastic Inc., and the Corporation's international subsidiaries have registered and/or have pending applications to register in relevant territories trademarks for important services and programs. All of the Company's publications, including books, magazines and software and interactive products, are subject to copyright protection both in the United States and internationally. The Company also obtains domain name protection for its internet domains. The Company seeks to obtain the broadest possible intellectual property rights for its products, and because inadequate legal and technological protections for intellectual property and proprietary rights could adversely affect operating results, the Company vigorously defends those rights against infringement.

EMPLOYEES

At May 31, 2009, the Company employed approximately 5,500 people in full-time jobs and 1,500 people in part-time jobs in the United States and approximately 2,100 people outside the United States. The number of part-time employees fluctuates during the year because significant portions of the Company's business are closely correlated with the school year. The Company believes that relations with its employees are good.

Executive Officers

The following individuals have been determined by the Board of Directors to be the executive officers of the Company. Each such individual serves as an executive officer of Scholastic until such officer's successor has been elected or appointed and qualified or until such officer's earlier resignation or removal.

| Name | Age | Employed by Registrant Since | Position(s) for Past Five Years |
|---------------------------|------------|-------------------------------------|--|
| Richard Robinson | 72 | 1962 | Chairman of the Board (since 1982), President (since 1974) and Chief Executive Officer (since 1975). |
| Maureen O. Connell | 47 | 2007 | Executive Vice President, Chief Administrative Officer and Chief Financial Officer (since 2007). Prior to joining the Company, Executive Vice President and Chief Financial Officer of Affinion Group, Inc., an affinity marketing company (2006); President and Chief Operating Officer (2003-2004) and Executive Vice President and Chief Financial and Administrative Officer (2002-2003) of Gartner, Inc., an information technology and research advisory firm; and Executive Vice President and Chief Financial Officer of Barnes & Noble, Inc. (2000-2002). |
| Margery W. Mayer | 57 | 1990 | Executive Vice President (since 1990), President, Scholastic Education (since 2002) and Executive Vice President, Learning Ventures (1998-2002). |
| Judith A. Newman | 51 | 1993 | Executive Vice President and President, Book Clubs (since 2005) and Scholastic At Home (2005-2006); Senior Vice President and President, Book Clubs and Scholastic At Home (2004-2005); and Senior Vice President, Book Clubs (1997-2004). |
| Cynthia Augustine | 51 | 2007 | Senior Vice President, Human Resources and Employee Services (since 2007). Prior to joining the Company, Senior Vice President of Talent Management for Time Warner, Inc. (2004-2005); and various positions at The New York Times Company, including Senior Vice President, Human Resources (1998 -2004) and President, Broadcast Group (2000-2004). |
| Andrew S. Hedden | 68 | 2008 | Member of the Board of Directors (since 1991), Executive Vice President, General Counsel and Secretary (since 2008). Prior to joining the Company, partner at the law firm of Baker & McKenzie LLP (2005-2008); partner at the law firm of Coudert Brothers LLP (1975-2005). |

Available Information

The Corporation's annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and any amendments to those reports are accessible at the Investor Relations portion of its website, www.scholastic.com, by clicking on the "SEC Filings" tab and are available, without charge, as soon as reasonably practicable after such reports are electronically filed or furnished to the Securities and Exchange Commission ("SEC"). The Company also posts the dates of its upcoming scheduled financial press releases, telephonic investor calls and investor presentations on the "Calendar and Presentations" portion of its website at least five days prior to the event. The Company's investor calls are open to the public and remain available through the Company's website for at least one year thereafter.

The public may also read and copy materials that the Company files with the SEC at the SEC's Public Reference Room at 100 F Street, N.E., Washington, DC. The public may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. The SEC also maintains an internet site, at www.sec.gov, that contains reports, proxy and information statements, and other information regarding issuers that file electronically with the SEC.

Item 1A | Risk Factors

Set forth below and elsewhere in this Annual Report on Form 10-K and in other documents that the Corporation files with the SEC are risks that should be considered in evaluating the Corporation's Common Stock, as well as risks and uncertainties that could cause the actual future results of the Company to differ from those expressed or implied in the forward-looking statements contained in this Report and in other public statements the Company makes. Additionally, because of the following risks and uncertainties, as well as other variables affecting the Company's operating results, the Company's past financial performance should not be considered an indicator of future performance.

If we cannot anticipate trends and develop new products or adapt to new technologies responding to changing customer preferences, this could adversely affect our revenues or profitability.

The Company operates in highly competitive markets that are subject to rapid change, including, in particular, changes in customer preferences and changes and advances in relevant technologies. There are substantial uncertainties associated with the Company's efforts to develop successful educational, trade publishing, entertainment and software and interactive products and services for its customers, as well as to adapt its print materials to new digital technologies, including the internet. The Company makes significant investments in new products and services that may not be profitable, or whose profitability may be significantly lower than the Company has experienced historically. In addition, the Company faces technological risks associated with software product development and service delivery in its educational technology and e-commerce businesses, as well as its internal business support systems, which could involve service failures, delays or internal system failures that result in damages, lost business or failures to be able to fully exploit business opportunities.

Our financial results would suffer if we fail to successfully meet market needs in school-based book clubs and book fairs, two of our core businesses.

The Company's school-based book clubs and book fairs are core businesses, which produce a substantial part of the Company's revenues. The Company is subject to the risk that it will not successfully develop and execute new promotional strategies for its school-based book clubs or book fairs in response to future customer trends or otherwise meet market needs in these businesses in a timely fashion, which would have an adverse effect on the Company's financial results.

If we fail to maintain the continuance of strong relationships with our authors, illustrators and other creative talent, as well as to develop relationships with new creative talent, our business could be adversely affected.

The Company's business, in particular the trade publishing and media portions of the business, is highly dependent on maintaining strong relationships with the authors, illustrators and other creative talent who produce the products and services that are sold to its customers. Any overall weakening of these relationships, or the failure to develop successful new relationships, could have an adverse impact on the Company's business and financial performance.

If we fail to adapt to new purchasing patterns or requirements, our business and financial results could be adversely affected.

The Company's business is affected significantly by changes in purchasing patterns or trends in, as well as the underlying strength of, the educational, trade, entertainment and software markets. In particular, the Company's educational publishing and technology businesses may be adversely affected by budgetary restraints and other changes in state educational funding as a result of new legislation or regulatory actions, both at the federal and state level, as well as changes in the procurement process, to which the Company may be unable to adapt successfully. Recently, shortfalls in funding have negatively impacted purchasing patterns in the education markets. Continuation of this trend could negatively impact the Company. In this context, while Federal economic stimulus funding under the American Recovery and Reinvestment Act may provide additional educational funding to compensate for budget shortfalls at the state level, the Company may not be successful in meeting its announced targets for incremental educational publishing sales based on such stimulus funding, which would adversely affect the ability of the Company to meet its announced financial plan for fiscal 2010. In addition, there are many competing demands for educational funds, and there can be no guarantee that the Company will otherwise be successful in continuing to obtain sales of its products from any available funding.

The competitive pressures we face in certain of our businesses could adversely affect our financial performance and growth prospects.

The Company is subject to significant competition, including from other educational and trade publishers and media, entertainment and internet companies, many of which are substantially larger than the Company and have much greater resources. To the extent the Company cannot meet these challenges from existing or new competitors, including in the educational publishing business, and develop new product offerings to meet customer preferences or needs, the Company's revenues and profitability could be adversely affected.

The reputation of the Company is one of its most important assets, and any adverse publicity or adverse events, such as a significant data privacy breach, could cause significant reputational damage and financial loss.

The businesses of the Company focus on learning and education, and its key relationships are with educators, teachers, parents and children. In particular, the Company believes that, in selecting its products, teachers, educators and parents rely on the Company's reputation for quality educational products appropriate for children. Also, in certain of its businesses the Company holds significant volumes of personal data, including that of customers, and, in its educational technology business, students. Adverse publicity, whether or not valid, could reduce demand for the Company's products or adversely affect its relationship with teachers or educators, impacting participation in book clubs or book fairs or decisions to purchase educational technology or other products or services of the Company's educational technology business. Further, a failure to adequately protect personal data, including that of customers or students, could lead to penalties, significant remediation costs and reputational damage, including loss of future business.

If we are unsuccessful in implementing our corporate strategy we may not be able to maintain our historical growth.

The Company's future growth depends upon a number of factors, including the ability of the Company to

successfully implement its strategies for the respective business units, the introduction and acceptance of new products and services, including the success of its digital strategy, its ability to expand in the global markets that it serves and its continuing success in implementing on-going cost containment and reduction programs. Difficulties, delays or failures experienced in connection with any of these factors could materially affect the future growth of the Company.

Increases in certain operating costs and expenses, which are beyond our control and can significantly affect our profitability, could adversely affect our operating performance.

The Company's major expense categories include employee compensation and printing, paper and distribution (such as postage, shipping and fuel) costs. The Company offers its employees competitive salaries and benefit packages in order to attract and retain the quality of employees required to grow and expand its businesses. Compensation costs are influenced by general economic factors, including those affecting costs of health insurance, post-retirement benefits and any trends specific to the employee skill sets the Company requires.

Paper prices fluctuate based on worldwide demand and supply for paper, in general, as well as for the specific types of paper used by the Company. If there is a significant disruption in the supply of paper or increase in these costs, which would generally be beyond the control of the Company, or if the Company's strategies to try to manage these costs, including additional cost savings initiatives, are ineffective, the Company's results of operations could be adversely affected.

The loss of or failure to obtain rights to intellectual property material to our businesses would adversely affect our financial results.

The Company's products generally comprise intellectual property delivered through a variety of media. The ability to achieve anticipated results depends in part on the Company's ability to defend its intellectual property against infringement, as well as the breadth of rights obtained. The Company's operating results could be adversely affected by inadequate legal and technological protections for intellectual property and proprietary rights in some jurisdictions, markets and media, and the Company's revenues could be constrained by limitations on the rights that the Company is able to secure to exploit its intellectual property in different media and distribution channels.

Because we sell our products and services in foreign countries, changes in currency exchange rates, as well as other risks and uncertainties, could adversely affect our operations and financial results.

The Company has various operating subsidiaries domiciled in foreign countries. In addition, the Company sells products and services to customers located in foreign countries where it does not have operating subsidiaries. Accordingly, the Company could be adversely affected by changes in currency exchange rates, as well as by the political and economic risks attendant to conducting business in foreign countries. These risks include the potential of political instability in developing nations where the Company is conducting business.

Certain of our activities are subject to weather risks, which could disrupt our operations or otherwise adversely affect our financial performance.

The Company conducts many of its businesses and maintains warehouse and office facilities in locations that are at risk of being negatively affected by severe weather events, such as hurricanes, floods or snowstorms. For example, in the fall of 2005, a series of hurricanes had a severe impact on the Gulf Coast area of the United States, closing several thousand schools, displacing several hundred thousand students and their families and, in turn, affecting the schools that took in those children. This impacted the Company's school-based book clubs, school-based book fairs and education businesses. Accordingly, the Company could be adversely affected by any future significant weather event.

Control of the Company resides in our Chairman of the Board, President and Chief Executive Officer and other members of his family through their ownership of Class A Stock, and the holders of the Common Stock generally have no voting rights in respect of transactions requiring stockholder approval.

The voting power of the Corporation's capital stock is vested exclusively in the holders of Class A Stock, except for the right of the holders of Common Stock to elect one-fifth of the Board of Directors and except as otherwise provided by law or as may be established in favor of any series of preferred stock that may be issued. Richard Robinson, the Chairman of the Board, President and Chief Executive Officer, and other members of the Robinson family beneficially own all of the outstanding shares of Class A Stock and are able to elect up to four-fifths of the Corporation's Board of Directors and, without the approval of the Corporation's other stockholders, to effect or block other actions or transactions requiring stockholder approval, such as a merger, sale of substantially all assets or similar transaction.

These factors should not be construed as exhaustive or as any admission regarding the adequacy of disclosures made by the Company prior to the date hereof.

Forward-Looking Statements:

This Annual Report on Form 10-K contains forward-looking statements. Additional written and oral forward-looking statements may be made by the Company from time to time in SEC filings and otherwise. The Company cautions readers that results or expectations expressed by forward-looking statements, including, without limitation, those relating to the Company's future business prospects, plans, strategies, goals, revenues, costs, operating margins, working capital, liquidity, capital needs, 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 this 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.

Item 1B | Unresolved Staff Comments

None

Item 2 | Properties

The Company maintains its principal offices in the metropolitan New York area, where it owns and leases approximately 600,000 square feet of space. The Company also owns or leases approximately 1.7 million square feet of office and warehouse space for its primary warehouse and distribution facility located in the Jefferson City, Missouri area. In addition, the Company owns or leases approximately 3.0 million square feet of office and warehouse space in more than 60 facilities in the United States, principally for Scholastic Book Fairs.

Additionally, the Company owns or leases approximately 1.5 million square feet of office and warehouse space in over 100 facilities in Canada, the United Kingdom, Australia, New Zealand, Asia and elsewhere around the world for its international businesses.

The Company considers its properties adequate for its current needs. With respect to the Company's leased properties, no difficulties are anticipated in negotiating renewals as leases expire or in finding other satisfactory space, if current premises become unavailable. For further information concerning the Company's obligations under its leases, see Notes 1 and 5 of Notes to Consolidated Financial Statements in Item 8, Consolidated Financial Statements and Supplementary Data.

Item 3 | Legal Proceedings

As previously reported in the Company's Quarterly Report on Form 10-Q for the period ended August 31, 2007 and the Company's Annual Report on Form 10-K for the fiscal year ended May 31, 2008, as amended, the Company is party to certain actions filed by each of Alaska Laborers Employers Retirement Fund and Paul Baicu, which were consolidated on November 8, 2007. On September 25, 2008, the plaintiff sought leave of the Court to file a second amended class action complaint, in order to add allegations relating to the Company's restatement announced in the Company's Annual Report on Form 10-K filed on July 30, 2008. The Court thereafter dismissed the Company's pending motion to dismiss as moot. On October 21, 2008, the plaintiff filed the second amended complaint, and on October 31, 2008, the Company filed a motion to dismiss the second amended complaint, which remains pending. The second amended class action complaint continues to allege securities fraud relating to statements made by the Company concerning its operations and financial results between March 2005 and March 2006 and seeks unspecified compensatory damages. The Company continues to believe that the allegations in such complaint are without merit and is vigorously defending the lawsuit.

In addition to the above suits, various claims and lawsuits arising in the normal course of business are pending against the Company. The results of these proceedings are not expected to have a material adverse effect on the Company's consolidated financial position or results of operations.

Item 4 | Submission of Matters to a Vote of Security Holders

During the fourth quarter of the fiscal year covered by this report, no matter was submitted to the vote of security holders through the solicitation of proxies or otherwise.

Part II

Item 5 | Market for the Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

Market Information: Scholastic Corporation's Common Stock, par value \$0.01 per share (the "Common Stock"), is traded on the NASDAQ Global Select Market under the symbol SCHL. Scholastic Corporation's Class A Stock, par value \$0.01 per share (the "Class A Stock"), is convertible, at any time, into Common Stock on a share-for-share basis. There is no public trading market for the Class A Stock. Set forth below are the quarterly high and low selling prices for the Common Stock at market close as reported by NASDAQ for the periods indicated:

For fiscal years ended May 31,

| | 2009 | | 2008 | |
|----------------|----------|----------|----------|----------|
| | High | Low | High | Low |
| First Quarter | \$ 31.35 | \$ 25.03 | \$ 36.51 | \$ 31.32 |
| Second Quarter | 30.00 | 11.96 | 39.58 | 33.69 |
| Third Quarter | 17.36 | 10.60 | 37.29 | 31.49 |
| Fourth Quarter | 20.34 | 9.39 | 35.67 | 28.11 |

Holders: The number of holders of Class A Stock and Common Stock as of June 30, 2009 were 3 and approximately 7,700, respectively. The number of holders includes holders of record and an estimate of the number of persons holding in street name.

Dividends: During the first quarter of fiscal 2009, the Company initiated a regular quarterly dividend in the amount of \$0.075 per Common and Class A share, for a total of \$0.30 per share in respect of fiscal 2009. In July 2009, the Board of Directors declared a cash dividend of \$0.075 per Common and Class A share in respect of the first quarter of fiscal 2010. The dividend is payable on September 15, 2009 to stockholders of record on August 31, 2009. All dividends have been in compliance with the Company's debt covenants.

Share purchases: The following table provides information with respect to purchases of shares of Common Stock by the Corporation during the quarter ended May 31, 2009:

Issuer Purchases of Equity Securities

(Amounts in millions, except share and 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 | Approximate dollar value that may yet be purchased under the plans or programs ⁽¹⁾ |
|--------------------------------------|----------------------------------|------------------------------|--|---|
| March 1, 2009 through March 31, 2009 | 234,169 | \$ 9.87 | 234,169 | \$ 1.05 |
| April 1, 2009 through April 30, 2009 | | \$ | | \$ 1.05 |
| May 1, 2009 through May 31, 2009 | | \$ | | \$ 1.05 |
| Total | 234,169 | \$ 9.87 | 234,169 | \$ 1.05 |

Edgar Filing: SCHOLASTIC CORP - Form 10-K

- (1) On February 4, 2009, the Corporation announced that its Board of Directors had authorized a new program to purchase up to \$5.0 million of Common Stock, from time to time as conditions allow, on the open market or through negotiated private transactions. As of July 30, 2009, no amounts remain available under this authorization.

Stock Price Performance Graph

The graph below matches Scholastic Corporation's cumulative 5-year total shareholder return on common stock with the cumulative total returns of the NASDAQ Composite index and a customized peer group of three companies that includes: The McGraw-Hill Companies, Pearson PLC and John Wiley & Sons Inc. The graph tracks the performance of a \$100 investment in the Corporation's Common Stock, in the peer group and in the index (with the reinvestment of all dividends) from June 1, 2004 to May 31, 2009.

Comparison of 5 Year Cumulative Total Return
Among Scholastic Corporation, The NASDAQ Composite Index
And A Peer Group

\$100 invested on 6/1/04 in stock or index-including reinvestment of dividends.

Fiscal year ended May 31,

| | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 |
|------------------------|-----------|-----------|----------|-----------|-----------|----------|
| Scholastic Corporation | \$ 100.00 | \$ 132.86 | \$ 93.20 | \$ 112.50 | \$ 110.13 | \$ 70.62 |
| NASDAQ Composite Index | 100.00 | 104.91 | 113.08 | 136.66 | 132.60 | 92.61 |
| Peer Group | 100.00 | 109.90 | 128.29 | 175.51 | 121.79 | 94.72 |

The stock price performance included in this graph is not necessarily indicative of future stock price performance.

Item 6 | Selected Financial Data

(Amounts in millions, except per share data)

For fiscal years ended May 31,

| | 2009 | 2008 | 2007 | 2006 | 2005 |
|---|------------|------------|------------|------------|------------|
| Statement of Operations Data: | | | | | |
| Total revenues | \$ 1,849.3 | \$ 2,159.1 | \$ 1,870.6 | \$ 2,004.6 | \$ 1,778.8 |
| Cost of goods sold ⁽¹⁾ | 868.8 | 1,035.9 | 871.4 | 982.9 | 850.1 |
| Selling, general and administrative expenses ⁽²⁾ | 790.1 | 832.0 | 759.3 | 788.0 | 719.3 |
| Bad debt expense ⁽³⁾ | 15.8 | 8.6 | 11.1 | 12.0 | 7.9 |
| Depreciation and amortization ⁽⁴⁾ | 60.7 | 62.2 | 61.4 | 60.6 | 59.3 |
| Severance ⁽⁵⁾ | 26.5 | 7.0 | 14.3 | 12.6 | 10.3 |
| Goodwill impairment charge ⁽⁶⁾ | 17.0 | | | | |
| Operating income | 70.4 | 213.4 | 153.1 | 148.5 | 131.9 |
| Other income ⁽⁷⁾ | 0.7 | 2.6 | | | |
| Interest expense, net | 23.0 | 29.8 | 30.9 | 32.4 | 35.7 |
| (Loss) gain on investments ⁽⁸⁾ | (13.5) | | 3.0 | | |
| Earnings from continuing operations | 13.2 | 117.3 | 82.7 | 77.7 | 63.2 |
| (Loss) gain from discontinued operations, net of tax | (27.5) | (134.5) | (21.8) | (9.1) | (59.9) |
| Net (loss) income | (14.3) | (17.2) | 60.9 | 68.6 | 3.3 |

Share Information:

Earnings from continuing operations:

| | | | | | |
|---------|---------|---------|---------|---------|---------|
| Basic | \$ 0.35 | \$ 3.03 | \$ 1.95 | \$ 1.87 | \$ 1.58 |
| Diluted | \$ 0.35 | \$ 2.99 | \$ 1.92 | \$ 1.84 | \$ 1.55 |

(Loss) gain from discontinued operations:

| | | | | | |
|---------|-----------|-----------|-----------|-----------|-----------|
| Basic | \$ (0.74) | \$ (3.47) | \$ (0.52) | \$ (0.22) | \$ (1.50) |
| Diluted | \$ (0.73) | \$ (3.43) | \$ (0.50) | \$ (0.21) | \$ (1.47) |

Net (loss) income:

| | | | | | |
|---------|-----------|-----------|---------|---------|---------|
| Basic | \$ (0.39) | \$ (0.44) | \$ 1.43 | \$ 1.65 | \$ 0.08 |
| Diluted | \$ (0.38) | \$ (0.44) | \$ 1.42 | \$ 1.63 | \$ 0.08 |

| | | | | | |
|---|---------|------|------|------|------|
| Weighted average shares outstanding basic | 37.2 | 38.7 | 42.5 | 41.6 | 40.0 |
| Weighted average shares outstanding diluted | 37.4 | 39.2 | 43.0 | 42.2 | 40.8 |
| Dividends declared per share | \$ 0.30 | \$ | \$ | \$ | \$ |

Balance Sheet Data:

| | | | | | |
|---|----------|----------|----------|----------|----------|
| Working Capital | \$ 412.4 | \$ 475.9 | \$ 502.8 | \$ 390.0 | \$ 564.5 |
| Cash and cash equivalents | 143.6 | 116.1 | 19.8 | 199.4 | 104.4 |
| Total assets | 1,608.8 | 1,761.6 | 1,816.7 | 1,991.2 | 1,870.4 |
| Long-term debt (excluding capital leases) | 250.0 | 295.1 | 173.4 | 173.2 | 476.5 |
| Total debt | 303.7 | 349.7 | 239.6 | 502.4 | 501.4 |
| Long-term capital lease obligations | 54.5 | 56.7 | 59.8 | 61.4 | 63.4 |
| Total capital lease obligations | 57.9 | 61.6 | 65.3 | 68.9 | 74.4 |
| Total stockholders equity | 785.0 | 873.1 | 1,068.0 | 988.3 | 876.1 |

(1) In fiscal 2006, the Company recorded pre-tax costs of \$3.2, related to the write-down of certain print reference set assets.

(2) In fiscal 2009, the Company recorded a pre-tax charge of \$1.4 related to fixed asset impairments.

(3) In fiscal 2006, the Company recorded pre-tax bad debt expense of \$2.9, associated with the bankruptcy of a for-profit educational services customer.

Edgar Filing: SCHOLASTIC CORP - Form 10-K

- (4) In fiscal 2008, the Company recorded a pre-tax charge of \$3.8, related to the impairment of certain intangible assets and prepublication costs.
- (5) In fiscal 2009, the Company recorded pre-tax severance expense of \$18.1, which was primarily related to the Company's previously announced voluntary retirement program and a workforce reduction program.
- (6) In fiscal 2009, the Company recorded a pre-tax \$17.0 goodwill impairment charge attributable to the Company's UK operations.
- (7) In fiscal 2008, the Company recorded a pre-tax gain on note repurchases of \$2.1 and a pre-tax currency gain on settlement of a loan of \$1.4, partially offset by \$0.9 of pre-tax expense from an early termination of one of the Company's subleases.
- (8) In fiscal 2009, the Company recorded a pre-tax loss on investments of \$13.5 related to investments in the United Kingdom. In fiscal 2007, the Company sold its remaining portion of an equity investment, resulting in a pre-tax gain of \$3.0.

Item 7 | Management's Discussion and Analysis of Financial Condition and Results of Operations
General

The Company categorizes its businesses into four reportable segments: *Children's Book Publishing and Distribution*; *Educational Publishing*; *Media, Licensing and Advertising* (which collectively represent the Company's domestic operations); and *International*.

The following discussion and analysis of the Company's financial position and results of operations should be read in conjunction with the Company's Consolidated Financial Statements and the related Notes included in Item 8, Consolidated Financial Statements and Supplementary Data.

Overview and Outlook

Fiscal 2009 revenues from continuing operations decreased 14.3% from fiscal 2008 to \$1.8 billion. This decrease in revenues was primarily attributable to the prior year's release of *Harry Potter and the Deathly Hallows*, the seventh and final book in the series, as well as a fiscal 2009 \$62.5 million unfavorable exchange rate impact.

Operating income from continuing operations decreased in fiscal 2009 to \$70.4 million from \$213.4 million in fiscal 2008 primarily due to the higher revenues in the prior year resulting from the release of *Harry Potter and the Deathly Hallows*.

During fiscal 2008, the Company determined to sell or shut down its domestic, Canadian and UK continuities businesses, and intends to sell the Maumelle Facility and the Danbury Facility. During fiscal 2009, the Company also ceased its operations in Argentina and Mexico, its door-to-door selling operations in Puerto Rico as well as its continuities business in Australia and New Zealand and its corporate book fairs business, and closed its Scarsdale, NY store. The Company also sold a trade magazine. Additionally, the Company sold a non-core market research business and a non-core on-line resource for teachers business and intends to sell a Spanish language book channel. All of the above businesses are classified as discontinued operations in the Company's financial statements.

The Company's goal for fiscal 2010 is to add \$30 million to \$70 million in operating income to its base, as well as to achieve a 9% operating margin if it is successful in reaching the high end of this range. The Company intends to focus on the following sources of profit improvement: 1) profit growth in the *Children's Book Publishing and Distribution* segment driven by improved gross margins from pricing adjustments, consolidated purchasing and publishing, higher online orders from parents in Book Clubs and continued revenue per fair growth in Book Fairs, 2) revenue growth and increased profitability in the *Educational Publishing* segment principally from incremental sales as a result of the Federal American Recovery and Reinvestment Act legislation, and 3) continued cost reductions and operational improvements, in addition to the fully annualized benefit of salary reductions in fiscal 2009.

Critical Accounting Policies and Estimates

General:

The Company's discussion and analysis of its financial condition and results of operations is based upon its consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States. The preparation of these financial statements involves the use of estimates and assumptions by management, which affects the amounts reported in the consolidated financial statements and accompanying notes. The Company bases its estimates on historical experience, current business factors and various other assumptions believed to be reasonable under the circumstances, all of which are necessary in order to form a basis for determining the carrying values of assets and liabilities. Actual results may differ from those estimates and assumptions. On an on-going basis, the Company evaluates the adequacy of its reserves and the estimates used in calculations, including, but not limited to: collectability of accounts receivable; sales returns; amortization periods; stock-based compensation expense; pension and other post-retirement obligations; tax rates; and recoverability of inventories, deferred income taxes and tax reserves, fixed assets, prepublication costs, and royalty advances, and the fair value of goodwill and other intangibles.

The following policies and account descriptions include all those identified by the Company as critical to its business operations and the understanding of its results of operations:

Revenue recognition:

The Company's revenue recognition policies for its principal businesses are as follows:

School-Based Book Clubs Revenue from school-based book clubs is recognized upon shipment of the products.

School-Based Book Fairs Revenues associated with school-based book fairs are related to sales of product. Book fairs are typically run by schools and/or parent teacher organizations over a five business-day period. At the end of reporting periods, the Company defers revenue for those fairs that have not been completed as of the period end based on the number of fair days occurring after period end on a straight-line calculation of the full fair's revenue.

Trade Revenue from the sale of children's books for distribution in the retail channel is primarily recognized when risks and benefits transfer to the customer, which generally is at the time of shipment, or when the product is on sale and available to the public. A reserve for estimated returns is established at the time of sale and recorded as a reduction to revenue. Actual returns are charged to the reserve as received. The calculation of the reserve for estimated returns is based on historical return rates and sales patterns. Actual returns could differ from the Company's estimate. A one percentage point change in the estimated reserve for returns rate would have resulted in an increase or decrease in operating income for the year ended May 31, 2009 of approximately \$2.3 million. A reserve for estimated bad debts is established at the time of sale and is based on the aging of accounts receivable held by the Company's third party administrator. While the Company uses a third party to invoice and collect for shipments made, the Company bears the majority of the responsibility in the case of uncollectible accounts.

Educational Publishing For shipments to schools revenue is recognized when risks and benefits transfer to the customer. Shipments to depositories are on consignment and revenue is recognized based on actual shipments from the depositories to the schools. For certain software-based products, the Company offers new customers installation and training and, in such cases, revenue is recognized as services are provided or over the life of the contract.

Toy Catalog Revenue from the sale of children's toys to the home through catalogs is recognized when risks and benefits transfer to the customer, which is generally at the time of shipment. A reserve for estimated returns is established at the time of sale and recorded as a reduction to revenue. Actual returns are

charged to the reserve as received. The calculation of the reserve for estimated returns is based on historical return rates and sales patterns. Actual returns could differ from the Company's estimate.

Film Production and Licensing Revenue from the sale of film rights, principally for the home video and domestic and foreign television markets, is recognized when the film has been delivered and is available for showing or exploitation. Licensing revenue is recorded in accordance with royalty agreements at the time the licensed materials are available to the licensee and collections are reasonably assured.

Magazines Revenue is deferred and recognized ratably over the subscription period, as the magazines are delivered.

Magazine Advertising Revenue is recognized when the magazine is on sale and available to the subscribers.

Scholastic In-School Marketing Revenue is recognized when the Company has satisfied its obligations under the program and the customer has acknowledged acceptance of the product or service. Certain revenues may be deferred pending future deliverables.

Cash equivalents:

Cash equivalents consist of short-term investments with original maturities of three months or less.

Accounts receivable:

Accounts receivable are recorded net of allowances for doubtful accounts and reserves for returns. In the normal course of business, the Company extends credit to customers that satisfy predefined credit criteria. The Company is required to estimate the collectability of its receivables. Reserves for returns are based on historical return rates and sales patterns. Allowances for doubtful accounts are established through the evaluation of accounts receivable aging and prior collection experience to estimate the ultimate collectability of these receivables. A one percentage point change in the estimated bad debt reserve rates, which are applied to the accounts receivable aging, would have resulted in an increase or decrease in operating income for the year ended May 31, 2009 of approximately \$2.5 million.

Inventories:

Inventories, consisting principally of books, are stated at the lower of cost, using the first-in, first-out method, or market. The Company records a reserve for excess and obsolete inventory based upon a calculation using the historical usage rates and sales patterns of its products. The impact of a one percentage point change in the obsolescence reserve would have resulted in an increase or decrease in operating income for the year ended May 31, 2009 of approximately \$4.1 million.

Leases:

Lease agreements are evaluated to determine whether they are capital or operating leases in accordance with Statement of Financial Accounting Standards (SFAS) No. 13, Accounting For Leases, as amended (SFAS No. 13). When substantially all of the risks and benefits of property ownership have been transferred to the Company, as determined by the test criteria in SFAS No. 13, the lease then qualifies as a capital lease.

Capital leases are capitalized at the lower of the net present value of the total amount of rent payable under the leasing agreement (excluding finance charges) or the fair market value of the leased asset. Capital lease assets are depreciated on a straight-line basis, over a period consistent with the Company's normal depreciation policy for tangible fixed assets, but generally not exceeding the lease term. Interest charges are expensed over the period of the lease in relation to the carrying value of the capital lease obligation.

Rent expense for operating leases, which may include free rent or fixed escalation amounts in addition to minimum lease payments, is recognized on a straight-line basis over the duration of each lease term.

Prepublication costs:

The Company capitalizes the art, prepress, editorial and other costs incurred in the creation of the master copy of a book or other media (the prepublication costs). Prepublication costs are amortized on a

straight-line basis over a three- to seven-year period based on expected future revenues. The Company regularly reviews the recoverability of the capitalized costs based on expected future revenues.

Royalty advances:

Royalty advances are capitalized and expensed as related revenues are earned or when future recovery appears doubtful. The Company records a reserve for the recoverability of its outstanding advances to authors based primarily upon historical earndown experience, and for unpublished titles based upon the likelihood of publication.

Goodwill and intangible assets:

Goodwill and other intangible assets with indefinite lives are not amortized and are reviewed for impairment annually or more frequently if impairment indicators arise.

With regard to goodwill, the Company compares the estimated fair value of its identified reporting units to the carrying value of the net assets. For each of the reporting units, the estimated fair value is determined utilizing the expected present value of the projected future cash flows of the units, in addition to comparisons to similar companies.

With regard to other intangibles with indefinite lives, the Company determines the fair value by asset, which is then compared to its carrying value. The estimated fair value is determined utilizing the expected present value of the projected future cash flows of the asset. Intangible assets with definite lives consist principally of customer lists, covenants not to compete, and certain other intellectual property assets and are amortized over their expected useful lives. Customer lists are amortized on a straight-line basis over a five-year period, while covenants not to compete are amortized on a straight-line basis over their contractual term. Other intellectual property assets are amortized over their remaining useful lives which range primarily from three to five years.

Other noncurrent liabilities:

All of the rate assumptions discussed below impact the Company's calculations of its pension and post-retirement obligations. The rates applied by the Company are based on the portfolios' past average rates of return, discount rates and actuarial information. Any change in market performance, interest rate performance, assumed health care costs trend rate or compensation rates could result in significant changes in the Company's pension and post-retirement obligations.

Pension obligations Scholastic Corporation and certain of its subsidiaries have defined benefit pension plans covering the majority of their employees who meet certain eligibility requirements. The Company's pension plans and other post-retirement benefits are accounted for using actuarial valuations required by SFAS No. 87, Employers' Accounting for Pensions, and SFAS No. 106, Employers' Accounting for Postretirement Benefits Other Than Pensions. In September 2006, the Financial Accounting Standards Board (the FASB) released SFAS No. 158, Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans, an amendment of SFAS No. 87, 88, 106, and 132 (SFAS No. 158).

On May 31, 2007, the Company adopted the recognition and disclosure provisions of SFAS No. 158, which required the Company to recognize the funded status of its pension plans in its May 31, 2007 consolidated balance sheet, with a corresponding adjustment to accumulated other comprehensive income, net of taxes.

The adjustment to accumulated other comprehensive income at adoption represents the net unrecognized actuarial losses (gains) and unrecognized prior service costs under the Company's pension plans and other post-retirement benefits at May 31, 2007. These amounts will be subsequently recognized as net periodic pension cost pursuant to the Company's historical accounting policy for amortizing such amounts, or in the period in which curtailments occur. Further, actuarial gains and losses that arise in subsequent periods and are not recognized as net periodic pension cost or net periodic post-retirement benefit cost in the same periods will be recognized as a component of comprehensive income. Those amounts

will be subsequently recognized as a component of net periodic pension cost or net periodic post-retirement benefit cost on the same basis as the amounts recognized in accumulated other comprehensive income (loss) at the adoption of SFAS No. 158.

The incremental effect of adopting the provisions of SFAS No. 158 on the Company's consolidated balance sheet at May 31, 2007 was a reduction in stockholders' equity of \$15.7 million, net of tax. The adoption of SFAS No. 158 had no effect on the Company's results of operations or cash flows for the year ended May 31, 2007, or for any prior period presented, and it did not and will not have any effect on the Company's results of operations or cash flows in periods after May 31, 2007. The Company adopted the measurement provision requirements of SFAS No. 158 effective May 31, 2008. The adoption of the measurement provision of SFAS No. 158 did not have any effect on the Company's results of operations or cash flows for the year ended May 31, 2009 and will not have any effect on the Company's results of operations or cash flows in the periods after May 31, 2009.

The Company's pension calculations are based on three primary actuarial assumptions: the discount rate, the long-term expected rate of return on plan assets and the anticipated rate of compensation increases. The discount rate is used in the measurement of the projected, accumulated and vested benefit obligations and the service and interest cost components of net periodic pension costs. The long-term expected return on plan assets is used to calculate the expected earnings from the investment or reinvestment of plan assets. The anticipated rate of compensation increase is used to estimate the increase in compensation for participants of the plan from their current age to their assumed retirement age. The estimated compensation amounts are used to determine the benefit obligations and the service cost. A one percentage point change in the discount rate and expected long-term return on plan assets would have resulted in an increase or decrease in operating income for the year ended May 31, 2009 of approximately \$0.3 million and \$1.1 million, respectively. Pension benefits in the cash balance plan for employees located in the United States are based on formulas in which the employees' balances are credited monthly with interest based on the average rate for one-year United States Treasury Bills plus 1%. Contribution credits are based on employees' years of service and compensation levels during their employment periods.

Other post-retirement benefits Scholastic Corporation provides post-retirement benefits, consisting of healthcare and life insurance benefits, to retired United States-based employees. The post-retirement medical plan benefits are funded on a pay-as-you-go basis, with the Company paying a portion of the premium and the employee paying the remainder. The Company follows SFAS No. 106, Employers' Accounting for Postretirement Benefits Other than Pensions, in calculating the existing benefit obligation, which is based on the discount rate and the assumed health care cost trend rate. The discount rate is used in the measurement of the projected and accumulated benefit obligations and the service and interest cost components of net periodic post-retirement benefit cost. The assumed health care cost trend rate is used in the measurement of the long-term expected increase in medical claims. A one percentage point change in the discount rate and the medical cost trend rate would have resulted in an increase or decrease in operating income for the year ended May 31, 2009 of approximately \$0.1 million and \$0.2 million, respectively.

Stock-based compensation On June 1, 2006, the Company adopted SFAS No. 123 (revised 2004) Share-Based Payment (SFAS No. 123R). SFAS No. 123R requires companies to measure the cost of services received in exchange for an award of equity instruments based on the grant-date fair value of the award.

That cost is recognized over the vesting period during which an employee is required to provide service in exchange for the award. The Company adopted SFAS No. 123R using the modified-prospective application method and, accordingly, recognizes compensation cost for stock-based compensation for all new or modified grants after the date of adoption. In addition,

the Company recognizes the unvested portion of the grant-date fair value of awards granted prior to the adoption based on the fair values previously calculated for disclosure purposes. The fair value of each option grant is estimated on the date of grant using the Black-Scholes option-pricing model. The determination of the assumptions used in the Black-Scholes model requires management to make significant judgments and estimates. The use of different assumptions and estimates in the Black-Scholes option-pricing model could have a material impact on the estimated fair value of option grants and the related expense. The risk-free interest rate is based on a U.S. Treasury rate in effect on the date of grant with a term equal to the expected life. The expected term is determined based on historical employee exercise and post-vesting termination behavior. The expected dividend yield is based on actual dividends paid or to be paid by the Company. When calculating expected stock price volatility, the Company utilizes the information for the preceding ten-year period.

Discontinued Operations SFAS No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets (SFAS 144), requires the calculation of estimated fair value less cost to sell of long-lived assets for assets held for sale. The calculation of estimated fair value less cost to sell includes significant estimates and assumptions, including, but not limited to: operating projections; excess working capital levels; real estate values; and the anticipated costs involved in the selling process. The Company recognizes operations as discontinued when the operations have either ceased, or are expected to be disposed of in a sale transaction in the near term, the operations and cash flows of all discontinued operations have been eliminated, or will be eliminated upon consummation of the expected sale transaction, and the Company will not have any significant continuing involvement in the discontinued operations subsequent to the expected sale transaction.

Income Taxes The Company uses the asset and liability method of accounting for income taxes. Under this method, deferred tax assets and liabilities are determined based on differences between financial reporting and tax bases of assets and liabilities and are measured using enacted tax rates and laws that will be in effect when the differences are expected to enter into the determination of taxable income.

The Company believes that its taxable earnings, during the periods when the temporary differences giving rise to deferred tax assets become deductible or when tax benefit carryforwards may be utilized, should be sufficient to realize the related future income tax benefits. For those jurisdictions where the expiration date of the tax benefit carryforwards or the projected taxable earnings indicate that realization is not likely, the Company establishes a valuation allowance.

In assessing the need for a valuation allowance, the Company estimates future taxable earnings, with consideration for the feasibility of on-going tax planning strategies and the realizability of tax benefit carryforwards, to determine which deferred tax assets are more likely than not to be realized in the future. Valuation allowances related to deferred tax assets can be impacted by changes to tax laws, changes to statutory tax rates and future taxable earnings. In the event that actual results differ from these estimates in future periods, the Company may need to adjust the valuation allowance.

In July 2006, the FASB issued FIN 48, which clarifies the accounting for uncertainty in income taxes recognized in a company's financial statements in accordance with SFAS No. 109, Accounting for Income Taxes. FIN 48 provides guidance on recognizing, measuring, presenting, and disclosing in the financial statements uncertain tax positions that a company has taken or expects to file in a tax return. FIN 48 states that a tax benefit from an uncertain tax position may be recognized only if it is more likely than not that the position is sustainable, based on its technical merits. The tax benefit of a qualifying position is the largest amount of tax benefit that is greater than 50% likely of being realized upon

settlement with a taxing authority having full knowledge of all relevant information. Prior to the issuance of FIN 48, an uncertain tax position would not be recorded unless it was probable that a loss or reduction of benefits would occur. Under FIN 48, the liability for unrecognized tax benefits is classified as noncurrent unless the liability is expected to be settled in cash within twelve months of the reporting date. The Company adopted the provisions of FIN 48 effective as of June 1, 2007.

Management has discussed the development and selection of these critical accounting policies with the Audit Committee of the Corporation's Board of Directors. The Audit Committee has reviewed the Company's disclosure relating to the policies described in this Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations.

Results of Operations

(Amounts in millions, except per share data)

For fiscal years ended May 31,

| | 2009 | | 2008 | | 2007 | |
|---|----------------|------------------|----------------|------------------|----------------|------------------|
| | \$ | % ⁽¹⁾ | \$ | % ⁽¹⁾ | \$ | % ⁽¹⁾ |
| Revenues: | | | | | | |
| Children's Book Publishing and Distribution | 913.5 | 49.4 | 1,161.4 | 53.8 | 928.2 | 49.6 |
| Educational Publishing | 384.2 | 20.8 | 407.1 | 18.9 | 406.2 | 21.7 |
| Media, Licensing and Advertising | 152.6 | 8.2 | 140.8 | 6.5 | 148.7 | 8.0 |
| International | 399.0 | 21.6 | 449.8 | 20.8 | 387.5 | 20.7 |
| Total revenues | 1,849.3 | 100.0 | 2,159.1 | 100.0 | 1,870.6 | 100.0 |
| Cost of goods sold (exclusive of depreciation) | 868.8 | 47.0 | 1,035.9 | 48.0 | 871.4 | 46.6 |
| Selling, general and administrative expenses⁽³⁾ | 790.1 | 42.7 | 832.0 | 38.5 | 759.3 | 40.5 |
| Bad debt expense | 15.8 | 0.9 | 8.6 | 0.4 | 11.1 | 0.6 |
| Depreciation and amortization ⁽²⁾ | 60.7 | 3.3 | 62.2 | 2.9 | 61.4 | 3.3 |
| Severance ⁽³⁾ | 26.5 | 1.4 | 7.0 | 0.3 | 14.3 | 0.8 |
| Goodwill impairment charge ⁽³⁾ | 17.0 | 0.9 | | | | |
| Operating income | 70.4 | 3.8 | 213.4 | 9.9 | 153.1 | 8.2 |
| Other income ⁽⁴⁾ | 0.7 | | 2.6 | 0.1 | | |
| Interest income | 1.2 | 0.1 | 3.1 | 0.1 | 2.5 | 0.1 |
| Interest expense | 24.2 | 1.3 | 32.9 | 1.5 | 33.4 | 1.8 |
| (Loss) gain on investments ⁽³⁾ | (13.5) | (0.7) | | | 3.0 | 0.2 |
| Earnings from continuing operations before income taxes | 34.6 | 1.9 | 186.2 | 8.6 | 125.2 | 6.7 |
| Earnings from continuing operations | 13.2 | 0.7 | 117.3 | 5.4 | 82.7 | 4.4 |
| Loss from discontinued operations, net of tax | (27.5) | (1.5) | (134.5) | (6.2) | (21.8) | (1.2) |
| Net (loss) income | (14.3) | (0.8) | (17.2) | (0.8) | 60.9 | 3.2 |
| Earnings (loss) per share: | | | | | | |
| Basic: | | | | | | |
| Earnings from continuing operations | \$ 0.35 | | \$ 3.03 | | \$ 1.95 | |
| Loss from discontinued operations | \$ (0.74) | | \$ (3.47) | | \$ (0.52) | |
| Net (loss) income | \$ (0.39) | | \$ (0.44) | | \$ 1.43 | |
| Diluted: | | | | | | |
| Earnings from continuing operations | \$ 0.35 | | \$ 2.99 | | \$ 1.92 | |
| Loss from discontinued operations | \$ (0.73) | | \$ (3.43) | | \$ (0.50) | |
| Net (loss) income | \$ (0.38) | | \$ (0.44) | | \$ 1.42 | |

(1) Represents percentage of total revenues.

(2) In fiscal 2008, the Company recorded a pre-tax \$3.8 charge for the impairment of certain intangible assets and prepublication costs.

(3) In fiscal 2009, the Company recorded a pre-tax \$17.0 goodwill impairment charge related to the Company's UK operations and a pre-tax \$13.5 loss on investments in the UK and a pre-tax loss on fixed asset impairments of \$1.4. The Company also recorded a pre-tax severance charge of \$18.1, which was primarily related to the Company's previously announced voluntary retirement program and a workforce

Edgar Filing: SCHOLASTIC CORP - Form 10-K

reduction program. In fiscal 2007, the Company sold its remaining portion of an equity investment and recorded a pre-tax \$3.0 gain.

- (4) In fiscal 2008, the Company recorded a pre-tax gain on note repurchases of \$2.1 and a currency gain pre-tax on settlement of a loan of \$1.4, partially offset by \$0.9 of pre-tax expense from early termination of a sublease.

Results of Operations Consolidated

Revenues for fiscal 2009 from continuing operations decreased 14.3%, or by \$309.8 million, to \$1,849.3 million, as compared to \$2,159.1 million in fiscal 2008. This decrease was principally related to \$247.9 million in lower revenues from the Children's Book Publishing and Distribution segment primarily due to the prior year release of *Harry Potter and the Deathly Hallows*, the seventh and final book in the series, and \$50.8 million in lower revenues from the International segment, which included a \$62.5 million negative impact of foreign currency exchange rates. Revenues for fiscal 2008 increased 15.4%, or by \$288.5 million, as compared to \$1,870.6 million in fiscal 2007. This increase related principally to \$233.2 million in higher revenues from the Children's Book Publishing and Distribution segment, primarily due to the fiscal 2008 release of *Harry Potter and the Deathly Hallows*, and an increase in the International segment of \$62.3 million, which included a \$39.6 million favorable impact of foreign currency exchange rates.

Cost of goods sold for fiscal 2009 decreased to \$868.8 million, or 47.0% of revenues, compared to \$1,035.9 million, or 48.0% of revenues, in the prior fiscal year. This decrease was primarily due to higher costs related to the Harry Potter release in fiscal 2008. In fiscal 2008, Cost of goods sold increased from \$871.4 million, or 46.6% of revenues, in fiscal 2007, primarily due to the Harry Potter release in fiscal 2008.

Selling, general and administrative expenses for fiscal 2009 decreased to \$790.1 million from \$832.0 million in fiscal 2008, primarily due to lower employee costs related to previously announced cost reduction plans as well as prior year expenses due to the Harry Potter release not incurred in the current year. In fiscal 2008, Selling, general and administrative expenses increased by \$72.7 million from \$759.3 million in the prior fiscal year principally due to costs related to the Harry Potter release in July 2007, higher employee related expenses and planned investments in the sales and service organizations in the Educational Publishing segment. Selling, general and administrative expenses in fiscal 2009 included benefits from the curtailment of the Company's domestic pension and post-retirement plans, that were mostly offset by higher one time benefit expenses. As a percentage of revenue, Selling, general and administrative expenses were 42.7% in fiscal 2009, 38.5% in fiscal 2008 and 40.5% in fiscal 2007, with the lower levels in fiscal 2008 primarily due to the revenue benefits of the Harry Potter release without a corresponding increase in related expense.

Bad debt expense for fiscal 2009 increased by \$7.2 million to \$15.8 million, compared to \$8.6 million in fiscal 2008, primarily due to increases in bad debt reserves in the Children's Book Publishing and Distribution and Educational Publishing segments of \$4.3 million and \$2.5 million, respectively. In fiscal 2008, Bad debt expense decreased by \$2.5 million as compared to \$11.1 million in fiscal 2007.

Severance expense for fiscal 2009 increased by \$19.5 million to \$26.5 million, compared to \$7.0 million in fiscal 2008, primarily due to expenses incurred related to previously announced cost reduction programs. In fiscal 2008, Severance expense decreased by \$7.3 million as compared to \$14.3 million in fiscal 2007.

In fiscal 2009, the Company recorded a non-cash charge for impairment of goodwill in its UK business of \$17.0 million.

The resulting operating income for fiscal 2009 decreased by \$143.0 million, or 67.0%, to \$70.4 million, as compared to \$213.4 million in the prior fiscal year. This decrease reflects lower operating income of \$85.3 million and \$35.0 million from the Children's Book Publishing and Distribution and International segments, respectively, as compared to the prior fiscal year. In fiscal 2008, operating income increased by \$60.3 million, or 39.4%, compared to \$153.1 million in the prior fiscal year.

Interest expense for fiscal 2009 decreased to \$24.2 million, as compared to \$32.9 million in fiscal 2008 and \$33.4 million in fiscal 2007, driven by lower borrowing levels and favorable interest rates.

In fiscal 2009, the Company recorded non-cash unrealized losses on investments in a UK book distribution business and related entities of \$13.5

million. In fiscal 2007, the Company sold its remaining portion of an equity investment, resulting in a pre-tax gain of \$3.0 million. The Company's provision for income taxes with respect to continuing operations resulted in an effective tax rate of 61.8%, 37.0% and 33.9% for fiscal 2009, 2008 and 2007, respectively. The Company's effective tax rate for fiscal year 2009 exceeds statutory rates as a result of net operating losses experienced in foreign operations, primarily in the United Kingdom, for which the Company does not expect to realize future tax benefits.

Earnings from continuing operations decreased by \$104.1 million to \$13.2 million in fiscal 2009, from \$117.3 million in fiscal 2008, which increased by \$34.6 million from \$82.7 million in fiscal 2007. The basic and diluted earnings from continuing operations per share of Class A Stock and Common Stock were \$0.35 in fiscal 2009, \$3.03 and \$2.99, respectively, in fiscal 2008, and \$1.95 and \$1.92, respectively, in fiscal 2007.

Loss from discontinued operations, net of tax decreased to \$27.5 million in fiscal 2009 as compared to \$134.5 million in fiscal 2008 and \$21.8 million in fiscal 2007. The higher amount in fiscal 2008 was substantially due to the write-down of certain assets associated with the decision to sell the domestic, Canadian and UK continuities businesses.

The resulting net loss for fiscal 2009 was \$14.3 million, or \$0.39 and \$0.38 per basic and diluted share, respectively, as compared to a net loss of \$17.2 million, or \$0.44 per basic and diluted share, in the prior fiscal year. Net income in fiscal 2007 was \$60.9 million, or \$1.43 and \$1.42 per basic and diluted share, respectively. The weighted average shares of Class A Stock and Common Stock outstanding, which is used to calculate earnings or loss per share, were lower in fiscal 2009 and fiscal 2008 as compared to fiscal 2007 primarily due to an accelerated share repurchase agreement entered into by the Corporation on June 1, 2007 (the ASR), as more fully discussed in Note 10 of Notes to Consolidated Financial Statements in Item 8, Consolidated Financial Statements and Supplementary Data.

Results of Operations – Segments

CHILDREN'S BOOK PUBLISHING AND DISTRIBUTION

(\$ amounts in millions)

| | 2009 | 2008 | 2007 |
|------------------|----------|------------|----------|
| Revenues | \$ 913.5 | \$ 1,161.4 | \$ 928.2 |
| Operating income | 89.7 | 175.0 | 104.8 |
| Operating margin | 9.8% | 15.1% | 11.3% |

Revenues in the *Children's Book Publishing* and Distribution segment accounted for 49.4% of the Company's revenues in fiscal 2009, 53.8% in fiscal 2008 and 49.6% in fiscal 2007. In fiscal 2009, segment revenues decreased by \$247.9 million, or 21.3%, to \$913.5 million from \$1,161.4 million in the prior fiscal year. This decrease was primarily due to lower revenues in the Company's trade business, which declined by \$235.2 million compared to the prior fiscal year, which reflected the release of *Harry Potter and the Deathly Hallows* in July 2007. In fiscal 2008, segment revenues increased by \$233.2 million, or 25.1%, from \$928.2 million in fiscal 2007. This increase was principally attributable to higher revenues of \$245.1 million in the Company's trade business with the release of the seventh book in the Harry Potter series.

Revenues from school book fairs accounted for 43.7% of segment revenues in fiscal 2009, compared to 34.9% in fiscal 2008 and 42.4% in fiscal 2007. In fiscal 2009, school book fair revenues decreased by \$6.2 million, or 1.5%, to \$399.5 million compared to \$405.7 million in fiscal 2008, primarily due to lower revenues from clearance sales and lower fair count, partially offset by higher revenue per fair. In fiscal 2008, school book fair revenues increased by 3.0%, or \$12.0 million, from \$393.7 million in fiscal 2007.

Revenues from school book clubs accounted for 36.2% of segment revenues in fiscal 2009, compared to 29.0% in fiscal 2008 and 38.9% in fiscal 2007. In fiscal 2009, school book club revenues decreased by \$6.5 million, or 1.9%, to \$330.2 million as compared to \$336.7 million in fiscal 2008, primarily due to lower revenue per order partially offset by an increase in order volume. In fiscal 2008, school book clubs revenues

declined by 6.6%, or \$23.9 million, as compared to \$360.6 million in fiscal 2007, principally due to the elimination of certain less profitable mailings.

The trade distribution channel accounted for 20.1% of segment revenues in fiscal 2009, compared to 36.1% in fiscal 2008 and 18.7% in fiscal 2007. Trade revenues decreased by \$235.2 million to \$183.8 million in fiscal 2009, compared to \$419.0 million in fiscal 2008, due to the unprecedented success of *Harry Potter and the Deathly Hallows*, in the prior year partially offset by the fiscal 2009 release of *The Tales of Beedle the Bard*, which does not have a correlating impact on operating income as profits from *The Tales of Beedle the Bard* benefit charity. In fiscal 2008, trade revenues increased by \$245.1 million from \$173.9 million in fiscal 2007, due to higher Harry Potter revenues. Trade revenues for Harry Potter, including *The Tales of Beedle the Bard*, were approximately \$35 million, \$270 million and \$20 million in fiscal 2009, 2008 and 2007, respectively.

Segment operating income in fiscal 2009 declined by \$85.3 million, or 48.7%, to \$89.7 million, compared to \$175.0 million in fiscal 2008. This decline was largely driven by the lower operating results in the Company's trade business related to the prior year's release of *Harry Potter and the Deathly Hallows*. Operating results were relatively flat in school book fairs as improved cost controls substantially offset the decline in revenues.

In fiscal 2008, segment operating income improved by \$70.2 million, or 67.0%, from \$104.8 million in fiscal 2007. The improvement was principally due to better operating results in the trade business, driven by the higher Harry Potter revenues.

EDUCATIONAL PUBLISHING

(\$ amounts in millions)

| | 2009 | 2008 | 2007 |
|------------------|----------|----------|----------|
| Revenues | \$ 384.2 | \$ 407.1 | \$ 406.2 |
| Operating income | 55.8 | 65.9 | 77.8 |
| Operating margin | 14.5% | 16.2% | 19.2% |

Revenues in the Educational Publishing segment accounted for 20.8% of the Company's revenues in fiscal 2009, 18.9% in fiscal 2008 and 21.7% in fiscal 2007. In fiscal 2009, segment revenues decreased by \$22.9 million, or 5.6%, to \$384.2 million, compared to \$407.1 million in the prior year. This decrease was principally driven by lower sales of READ180 in the first quarter of fiscal 2009 and lower school classroom and library revenues. Revenues from these markets were negatively impacted by a reduction in available public funding during fiscal year 2009.

Technology and related services revenues in fiscal 2009 decreased by \$13.0 million, or 8.2%, to \$146.5 million from \$159.5 in the prior fiscal year. In fiscal 2008, segment revenues slightly increased by \$0.9 million from \$406.2 million in fiscal 2007.

In fiscal 2009, segment operating income decreased by \$10.1 million, or 15.3%, to \$55.8 million, as compared to \$65.9 million in the prior fiscal year, primarily due to lower revenues and a non-cash charge for fixed assets impairment of \$1.4 million, partially offset by lower selling expenses. In fiscal 2008, segment operating income decreased by \$11.9 million, or 15.3%, from \$77.8 million in fiscal 2007, due to investments in the sales force.

MEDIA, LICENSING AND ADVERTISING

(\$ amounts in millions)

| | 2009 | 2008 | 2007 |
|------------------|----------|----------|----------|
| Revenues | \$ 152.6 | \$ 140.8 | \$ 148.7 |
| Operating income | 12.1 | 7.3 | 13.1 |
| Operating margin | 7.9% | 5.2% | 8.8% |

Revenues in the *Media, Licensing and Advertising* segment accounted for 8.2% of the Company's revenues in fiscal 2009, 6.5% in fiscal 2008 and 8.0% in fiscal 2007. In fiscal 2009, segment revenues increased by \$11.8 million, or 8.4%, to \$152.6 million from \$140.8 million in fiscal 2008, primarily due to higher revenues from sales of software and interactive products, higher revenues in the custom publishing business and

Edgar Filing: SCHOLASTIC CORP - Form 10-K

higher production revenues. In fiscal 2008, segment revenues decreased by \$7.9 million, or 5.3%, from \$148.7 million in fiscal 2007, primarily due to lower revenues from sales of software and interactive products and a decline in television programming revenues.

Segment operating income in fiscal 2009 increased by \$4.8 million to \$12.1 million from \$7.3 million in fiscal 2008 driven by the aforementioned revenue increases. In fiscal 2008, segment operating income decreased \$5.8 million from \$13.1 million in fiscal 2007.

INTERNATIONAL

(\$ amounts in millions)

| | 2009 | 2008 | 2007 |
|------------------|----------|----------|----------|
| Revenues | \$ 399.0 | \$ 449.8 | \$ 387.5 |
| Operating income | 7.3 | 42.3 | 35.4 |
| Operating margin | 1.8% | 9.4% | 9.1% |

Revenues in the *International* segment accounted for 21.6% of the Company's revenues in fiscal 2009, 20.8% in fiscal 2008 and 20.7% in fiscal 2007. In fiscal 2009, segment revenues decreased by \$50.8 million, or 11.3%, to \$399.0 million from \$449.8 million in the prior fiscal year. This decrease was due to the unfavorable impact of foreign currency exchange rates of \$62.5 million, and a revenue decline in the United Kingdom of \$11.6 million, partially offset by revenue growth in Australia and Canada of \$13.5 million and \$8.0 million, respectively. In fiscal 2008, segment revenues increased by \$62.3 million, or 16.1%, from \$387.5 million in fiscal 2007 primarily due to the favorable impact of foreign currency exchange rates of \$39.6 million, as well as revenue growth in the United Kingdom and Australia of \$10.1 million and \$6.9 million, respectively.

Segment operating income in fiscal 2009 decreased by \$35.0 million, to \$7.3 million, as compared to \$42.3 million in the prior fiscal year, primarily due to lower operating income in the United Kingdom, including a non-cash charge for impairment of goodwill of \$17.0 million as well as the unfavorable impact of foreign currency exchange rates of \$12.1 million. In fiscal 2008, segment operating income increased by \$6.9 million, or 19.5%, from \$35.4 million primarily due to the favorable impact of foreign currency exchange rates.

Liquidity and Capital Resources

The Company's cash and cash equivalents, including the cash of the discontinued operations, totaled \$143.6 million at May 31, 2009, compared to \$120.4 million at May 31, 2008 and \$22.8 million at May 31, 2007. The \$23.2 million increase from May 31, 2008 to May 31, 2009 was primarily due to strong cash from operations and net proceeds from the sale of a non-core market research business, partially offset by debt reduction and reacquisition of common stock. The \$97.6 million increase from May 31, 2007 to May 31, 2008 was primarily due to higher Harry Potter revenues in fiscal 2008.

Net cash provided by operating activities decreased by \$117.9 million to \$188.6 million in fiscal 2009 compared to \$306.5 million in fiscal 2008. This decrease was related to the decline in earnings from continuing operations, excluding non cash items, of \$60.8 million which was primarily attributable to the prior year's release of *Harry Potter and the Deathly Hallows* as well as net tax refunds due to the realization of deferred tax assets. In addition, the working capital changes that had a negative effect on cash flows occurred in accounts receivable, which accounted for \$21.2 million of the decrease and accrued royalties, related to the timing of royalty payments, which accounted for \$13.6 million of the decrease, as well as \$16.2 related to Accounts payable and other accrued expenses. The Company did not pay federal income taxes in fiscal 2009 due to its recognition of certain deferred tax assets. The Company expects to be a federal tax payer in the future.

Net cash used in investing activities decreased by \$50.0 million to \$73.4 million for the fiscal year ended May 31, 2009 from \$123.4 million in the prior fiscal year. This decrease was primarily due to \$33.0 million in proceeds received from sale of businesses and reduced spending of \$11.1 million for property, plant and equipment.

Net cash used in financing activities increased by \$11.9 million to \$86.3 million in fiscal 2009 as compared to \$74.4 million in fiscal 2008. The increase in the use of cash reflects fewer proceeds pursuant to stock-based compensation plans of \$35.3 million as well as greater repayments of the term loan totaling \$21.4 million and dividend payments of \$8.4 million. These financing cash uses were partially offset by fewer net repayments under lines of credit of \$57.2 million. Fiscal 2008 experienced an increase in debt offset by substantial share repurchases. Due to the seasonality of its businesses, as discussed in Item 1, Business - Seasonality, the Company typically experiences negative cash flow in the June through October time period. As a result of the Company's business cycle, seasonal borrowings have historically increased during June, July and August, have generally peaked in September and October, and have declined to their lowest levels in May.

The Company's operating philosophy is to use cash provided from operating activities to create value by paying down debt, to reinvest in existing businesses and, from time to time, to make acquisitions that will complement its portfolio of businesses and to engage in shareholder enhancement initiatives, such as share purchases 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.

Despite the current economic conditions, the Company has maintained, and expects to maintain for the foreseeable future, sufficient liquidity to fund on-going operations, including pension contributions, dividends, authorized common share repurchases, debt service, planned capital expenditures and other investments. As of May 31, 2009, the Company's primary sources of liquidity consisted of cash and cash equivalents of \$143.6 million, cash from operations, and borrowings remaining available under the Revolving Loan (as described under Financing below) totaling \$325.0 million. Approximately 54% of the Company's outstanding debt is not due until fiscal 2013, and the remaining 46% is spread ratably over each preceding period. The Company may at any time, but in any event not more than once in any calendar year, request that the aggregate availability of credit under the Revolving Loan be increased by an amount of \$10.0 million or an integral multiple of \$10.0 million (but not to exceed \$150.0 million). Accordingly, the Company believes these sources of liquidity are sufficient to finance its on-going operating needs, as well as its financing and investing activities.

In March 2009, the Company's credit rating was reduced to BB- by Standard & Poor's Rating Services and Ba2 by Moody's Investors Service. Both agencies have rated the outlook for the Company as Stable. The Company believes that existing committed credit lines, cash from operations and other sources of cash are sufficient to meet the Company's liquidity needs for the near term, as the Company is currently compliant with its debt covenants and expects to remain compliant for the foreseeable future. The Company's interest rates for the Loan Agreement are associated with certain leverage ratios, and, accordingly, a change in the Company's credit rating does not result in an increase in interest costs under the Company's Loan Agreement.

Edgar Filing: SCHOLASTIC CORP - Form 10-K

The following table summarizes, as of May 31, 2009, the Company's contractual cash obligations by future period (see Notes 4 and 5 of Notes to Consolidated Financial Statements in Item 8, Consolidated Financial Statements and Supplementary Data):

| Contractual Obligations ⁽²⁾ | Payments Due by Period | | | | |
|--|------------------------|-----------------|-----------------|-----------------|-------------------|
| | 1 Year or Less | Years 2-3 | Years 4-5 | After Year 5 | Total |
| Minimum print quantities | \$ 39.3 | \$ 81.2 | \$ 84.7 | \$ 277.0 | \$ 482.2 |
| Royalty advances | 3.7 | 2.2 | 0.4 | | 6.3 |
| Lines of credit and short-term debt | 10.9 | | | | 10.9 |
| Capital leases ⁽¹⁾ | 8.6 | 11.6 | 11.3 | 201.3 | 232.8 |
| Debt ⁽¹⁾ | 51.2 | 102.4 | 172.8 | | 326.4 |
| Pension and post-retirement plans | 16.4 | 32.9 | 27.0 | 68.1 | 144.4 |
| Operating leases | 36.4 | 55.3 | 38.7 | 58.0 | 188.4 |
| Total | \$ 166.5 | \$ 285.6 | \$ 334.9 | \$ 604.4 | \$ 1,391.4 |

(1) Includes principal and interest.

(2) Obligations for income tax uncertainties pursuant to FIN 48 of approximately \$33.6 are not included in the table.

Financing

On June 1, 2007, Scholastic Corporation and Scholastic Inc. (each, a Borrower and together, the Borrowers) elected to replace the Company's then-existing credit facilities with a new \$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 is a contractually committed unsecured credit facility that is scheduled to expire on June 1, 2012. The \$325.0 million Revolving Loan component 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. The \$200.0 million Term Loan component was established in order to fund the reacquisition by the Corporation of shares of its Common Stock pursuant to an Accelerated Share Repurchase Agreement (as more fully described in Note 10 of Notes to Consolidated Financial Statements in Item 8, Consolidated Financial Statements and Supplementary Data) and was fully drawn on June 28, 2007 in connection with that transaction. The Term Loan, which may be prepaid at any time without penalty, requires quarterly principal payments of \$10.7 million, with the first payment made on December 31, 2007, and a final payment of \$7.4 million due on June 1, 2012. Interest on both the Term Loan and 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). At the election of the Borrower, the interest rate charged for each loan made under the Loan Agreement is based on (1) a rate equal to the higher of (a) the prime rate or (b) the prevailing Federal Funds rate plus 0.500% or (2) an adjusted LIBOR rate plus an applicable margin, ranging from 0.500% to 1.250% based on the Company's prevailing consolidated debt to total capital ratio. As of May 31, 2009 and 2008, the applicable margin on the Term Loan was 0.875% and the applicable margin on the Revolving Loan was 0.700%. The Loan Agreement also provides for the payment of a facility fee ranging from 0.125% to 0.250% per annum on the Revolving Loan only, which at May 31, 2009 and 2008 was 0.175%. As of May 31, 2008, \$178.6 million was outstanding under the Term Loan at an interest rate of 3.8%. There was no outstanding borrowings under the Revolving Loan as of May 31, 2008. As of May 31, 2009, \$135.8 million was outstanding under the Term Loan at an interest rate of 1.2%. There were no outstanding borrowings under the Revolving Loan as of May 31, 2009. As of May 31, 2009, there was \$0.5 million of outstanding standby letters of

credit issued under the Loan Agreement. The Loan Agreement contains certain covenants, including interest coverage and leverage ratio tests and certain limitations on the amount of dividends and other distributions, and at May 31, 2009 the Company was in compliance with these covenants.

In May 2009 and during the fourth quarter of fiscal 2008, the Company entered into unsecured money market bid rate credit lines totaling \$20.0 million and \$50.0 million, respectively. There were no outstanding borrowings under these credit lines at May 31, 2009 and May 31, 2008. On March 20, 2009, the Company's aggregate credit lines available under these facilities were reduced to \$20 million, resulting from a lender's cancellation of its \$25.0 million line. 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 180 days for fiscal 2009 and 364 days for fiscal 2008. These credit lines are typically available for loans up to 180 days in fiscal 2009 and 364 days in fiscal 2008, and may be renewed, if requested by the Company, at the sole option of the lender.

As of May 31, 2009, the Company also had various local currency credit lines, with maximum available borrowings in amounts equivalent to \$40.4 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 facilities equivalent to \$10.9 million at May 31, 2009 at a weighted average interest rate of 3.3% as compared to the equivalent of \$11.8 million at May 31, 2008 at a weighted average interest rate of 6.4%. In December 2008, the Company recapitalized its United Kingdom operations via a cash contribution from the Company's domestic operations, due to the cancellation of the local currency credit line in the United Kingdom.

At May 31, 2009, the Company had open standby letters of credit of \$7.4 million issued under certain credit lines, as compared to \$8.4 million as of May 31, 2008. These letters of credit are scheduled to expire within one year; however, the Company expects that substantially all of these letters of credit will be renewed, at similar terms, prior to expiration.

The Company's total debt obligations were \$303.7 million at May 31, 2009 and \$349.7 million at May 31, 2008. The lower level of debt at May 31, 2009 compared to the level at May 31, 2008 was primarily due to repayments made on the Term Loan and repurchases of the Company's 5% Notes on the open market.

For a more complete description of the Company's debt obligations, see Note 4 of Notes to Consolidated Financial Statements in Item 8, Consolidated Financial Statements and Supplementary Data.

Acquisitions

In the ordinary course of business, the Company explores domestic and international expansion opportunities, including potential niche and strategic acquisitions. As part of this process, the Company engages with interested parties in discussions concerning possible transactions. The Company will continue to evaluate such opportunities and prospects.

NEW ACCOUNTING PRONOUNCEMENTS

In September 2006, the Financial Accounting Standards Board (FASB) issued SFAS No. 157, Fair Value Measurements (SFAS 157). SFAS 157 defines fair value, establishes a framework for measuring fair value under generally accepted accounting principles, and expands disclosures about fair value measurements. SFAS 157 emphasizes that fair value is a market-based measurement, not an entity-specific measurement, and states that a fair value measurement should be determined based on the assumptions that market participants would use in pricing the asset or liability. In February 2008, the FASB issued FASB Staff Position (FSP) No. FAS 157-1, Application of FASB Statement No. 157 to FASB Statement No. 13 and Other Accounting Pronouncements That Address Fair Value Measurements for Purposes of Lease Classification or Measurement under Statement 13, and FSP No. FAS 157-2, Effective Date of FASB Statement No. 157.

Collectively, these Staff Positions allow a one-year deferral of adoption of SFAS 157 for nonfinancial assets and liabilities that are recognized or disclosed at fair value in the financial statements on a non-recurring basis and amend SFAS 157 to exclude FASB Statement No. 13 and its related interpretive accounting pronouncements that address leasing transactions.

The Company adopted SFAS 157 beginning June 1, 2008, except for non financial assets and liabilities measured at fair value on a non-recurring basis, which will be effective for the Company June 1, 2009. The impact of the adoption on June 1, 2008 was not material to the Company's consolidated financial statements. The Company is currently evaluating the impact that the adoption of the deferred portion of SFAS 157 will have on its consolidated financial position, results of operations and cash flows.

SFAS 157 establishes a three-level hierarchy for fair value measurements to prioritize the inputs used in the valuation techniques to derive fair values. The basis for fair value measurements for each level within the hierarchy is described below with Level 1 having the highest priority and Level 3 having the lowest.

Level 1: Quoted prices in active markets for identical assets or liabilities.

Level 2: Quoted prices for similar assets or liabilities in active markets; quoted prices for identical or similar instruments in markets that are not active; and model-derived valuations in which all significant inputs are observable in active markets.

Level 3: Valuations derived from valuation techniques in which one or more significant inputs are unobservable.

The Company's assets and liabilities measured at fair value on a recurring basis subject to the presentation requirements of SFAS 157 at May 31, 2009 consisted of cash and cash equivalents and foreign currency forward contracts. The foreign currency forward contracts 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 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.

In February 2007, the FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities* (SFAS 159), to provide companies with an option to report selected financial assets and liabilities at fair value. The objective of SFAS 159 is to reduce both the complexity in accounting for financial instruments and the volatility in earnings caused by measuring related assets and liabilities differently. SFAS 159 was effective for the Company beginning June 1, 2008. The Company has not elected to measure any financial assets and financial liabilities at fair value which were not previously required to be measured at fair value. Therefore, the adoption of this standard has had no impact on the Company's consolidated financial position, results of operations and cash flows.

In December 2007, the FASB issued SFAS No. 141 (revised), *Business Combinations* (SFAS 141R). SFAS 141R establishes principles and requirements for how an acquirer accounts for business combinations. SFAS 141R includes guidance for the recognition and measurement of the identifiable assets acquired, the liabilities assumed, and any noncontrolling or minority interest in the acquiree. It also provides guidance for the measurement of goodwill, the recognition of contingent consideration, the accounting for pre-acquisition gain and loss contingencies and acquisition-related transaction costs, and the recognition of changes in the acquirer's income tax valuation allowance. SFAS 141R applies prospectively and is effective for business combinations made by the Company beginning June 1, 2009.

In December 2007, the FASB issued SFAS No. 160, Noncontrolling Interests in Consolidated Financial Statements, an amendment of ARB No. 51, (SFAS 160). SFAS 160 amends Accounting Research Bulletin No. 51, Consolidated Financial Statements, to establish accounting and reporting standards for any noncontrolling interest in a subsidiary and for the deconsolidation of a subsidiary. SFAS 160 clarifies that a noncontrolling interest in a subsidiary should be reported as a component of equity in the consolidated financial statements and requires disclosure, on the face of the consolidated statement of income, of the amounts of consolidated net income attributable to the parent and to the noncontrolled interest. SFAS 160 is effective for the Company beginning June 1, 2009 and is to be applied prospectively, except for the presentation and disclosure requirements, which upon adoption will be applied retrospectively for all periods presented. The Company is currently evaluating the impact, if any, that SFAS 160 will have on its consolidated financial position, results of operations and cash flows.

In April 2008, the FASB issued FSP No. FAS 142-3, Determination of the Useful Life of Intangible Assets (FAS 142-3). FAS 142-3 amends the factors that should be considered in developing renewal or extension assumptions used to determine the useful life of a recognized intangible asset under FASB Statement No. 142, Goodwill and Other Intangible Assets. FAS 142-3 is effective for fiscal years beginning after December 15, 2008 and early adoption is prohibited. The Company is currently evaluating the impact, if any, that FAS 142-3 will have on its consolidated financial position, results of operations and cash flows.

In June 2008, the FASB issued FSP No. EITF 03-6-1, Determining Whether Instruments Granted in Share-Based Payment Transactions Are Participating Securities (FSP 03-6-1), which classifies unvested share-based payment awards that contain non-forfeitable rights to dividends or dividend equivalents as participating securities and requires them to be included in the computation of earnings per share, pursuant to the two-class method described in SFAS No. 128, Earnings per Share. FSP 03-6-1 is effective for financial statements issued for fiscal years beginning after December 15, 2008, and interim periods within those years. It requires all prior period earnings per share data presented to be adjusted retrospectively. The adoption of FSP EITF 03-6-1 did not materially impact the disclosures of historical earnings per share.

In May 2009, the FASB issued SFAS No. 165, Subsequent Events (SFAS 165), which establishes standards of accounting for and disclosure of events that occur after the balance sheet date but before financial statements are issued or are available to be issued. It requires the disclosure of the date through which an entity has evaluated subsequent events and the basis for that date, i.e., whether that date represents the date the financial statements were issued or were available to be issued. SFAS 165 is effective for interim or annual financial periods ending after June 15, 2009.

In June 2009, the FASB issued SFAS No. 168, Accounting Standards Codification (SFAS 168), which will become the source of authoritative U.S. generally accepted accounting principles or GAAP. Rules and interpretive releases of the Securities and Exchange Commission or SEC under authority of federal securities laws are also sources of authoritative GAAP for SEC registrants. SFAS No. 168 is effective for financial statements issued for interim and annual periods ending after September 15, 2009, and applies to financial statements of nongovernmental entities that are presented in conformity with GAAP.

Item 7A | 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. All foreign exchange hedging transactions are supported by an identifiable commitment or a forecasted transaction. 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 48% of the Company's debt at May 31, 2009 bore interest at a variable rate and was sensitive to changes in interest rates, compared to approximately 53% at May 31, 2008. The decrease in variable-rate debt as of May 31, 2009 compared to May 31, 2008 was primarily due to repayments made on the Term Loan and the repurchase of 5% Notes on the open market. 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 7, 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 May 31, 2009 (see Note 4 of Notes to Consolidated Financial Statements in Item 8, Consolidated Financial Statements and Supplementary Data):

\$ amounts in millions

| | Fiscal Year Maturity | | | | | Total | Fair Value as of May 31, 2009 |
|--|----------------------|---------|---------|--------------------|------------|----------|--|
| | 2010 | 2011 | 2012 | 2013 | Thereafter | | |
| Debt Obligations | | | | | | | |
| Lines of credit and short-term debt | \$ 10.9 | \$ | \$ | \$ | \$ | \$ 10.9 | \$ 10.9 |
| Average interest rate | 3.3% | | | | | | |
| Long-term debt, including Current portion: | | | | | | | |
| Fixed-rate debt | \$ | \$ | \$ | \$ 158.0 | \$ | \$ 158.0 | \$ 129.6 |
| Average interest rate | 5.0% | | | | | | |
| Variable-rate debt | \$ 42.8 | \$ 42.8 | \$ 42.8 | 7.4 ⁽¹⁾ | \$ | 135.8 | \$ 135.8 |
| Interest rate ⁽²⁾ | 1.2% | 1.2% | 1.2% | 1.2% | | | |

(1) Represents the final payment under the Term Loan, which has a final maturity of June 1, 2012 but may be repaid at any time.

(2) Represents the interest rate under the Term Loan at May 31, 2009; the interest rate is subject to change over the life of the Term Loan.

Item 8 | Consolidated Financial Statements and Supplementary Data

| | Page(s) |
|---|----------------|
| <u>Consolidated Statements of Operations for the years ended May 31, 2009, 2008 and 2007</u> | 37 |
| <u>Consolidated Balance Sheets at May 31, 2009 and 2008</u> | 38-39 |
| <u>Consolidated Statements of Changes in Stockholders' Equity and Comprehensive Income (Loss) for the years ended May 31, 2009, 2008 and 2007</u> | 40-41 |
| <u>Consolidated Statements of Cash Flows for the years ended May 31, 2009, 2008 and 2007</u> | 42-43 |
| <u>Notes to Consolidated Financial Statements</u> | 44-71 |
| <u>Reports of Independent Registered Public Accounting Firm</u> | 72-73 |
| <u>Supplementary Financial Information - Summary of Quarterly Results of Operations</u> | 74 |
| <u>The following consolidated financial statement schedule for the years ended May 31, 2009, 2008 and 2007 is filed with this annual report on Form 10-K:</u> | |
| <u>Schedule II - Valuation and Qualifying Accounts and Reserves</u> | S-2 |
| All other schedules have been omitted since the required information is not present or is not present in amounts sufficient to require submission of the schedule, or because the information required is included in the Consolidated Financial Statements or the Notes thereto. | |

Consolidated Statements of Operations(Amounts in millions, except per share data)
For fiscal years ended May 31,

| | 2009 | 2008 | 2007 |
|--|-------------------|-------------------|-------------------|
| Revenues | \$ 1,849.3 | \$ 2,159.1 | \$ 1,870.6 |
| Operating costs and expenses: | | | |
| Cost of goods sold (exclusive of depreciation) | 868.8 | 1,035.9 | 871.4 |
| Selling, general and administrative expenses | 790.1 | 832.0 | 759.3 |
| Bad debt expense | 15.8 | 8.6 | 11.1 |
| Depreciation and amortization | 60.7 | 62.2 | 61.4 |
| Severance | 26.5 | 7.0 | 14.3 |
| Goodwill impairment charge | 17.0 | | |
| Total operating costs and expenses | 1,778.9 | 1,945.7 | 1,717.5 |
| Operating income | 70.4 | 213.4 | 153.1 |
| Other income | 0.7 | 2.6 | |
| Interest income | 1.2 | 3.1 | 2.5 |
| Interest expense | 24.2 | 32.9 | 33.4 |
| (Loss) gain on investments | (13.5) | | 3.0 |
| Earnings from continuing operations before income taxes | 34.6 | 186.2 | 125.2 |
| Provision for income taxes | 21.4 | 68.9 | 42.5 |
| Earnings from continuing operations | 13.2 | 117.3 | 82.7 |
| Loss from discontinued operations, net of tax | (27.5) | (134.5) | (21.8) |
| Net (loss) income | \$ (14.3) | \$ (17.2) | \$ 60.9 |
| Basic and diluted earnings (loss) per share of Class A and Common Stock | | | |
| Basic: | | | |
| Earnings from continuing operations | \$ 0.35 | \$ 3.03 | \$ 1.95 |
| Loss from discontinued operations | \$ (0.74) | \$ (3.47) | \$ (0.52) |
| Net (loss) income | \$ (0.39) | \$ (0.44) | \$ 1.43 |
| Diluted: | | | |
| Earnings from continuing operations | \$ 0.35 | \$ 2.99 | \$ 1.92 |
| Loss from discontinued operations | \$ (0.73) | \$ (3.43) | \$ (0.50) |
| Net (loss) income | \$ (0.38) | \$ (0.44) | \$ 1.42 |
| Dividends declared per share | \$ 0.30 | | |

See accompanying notes

Consolidated Balance Sheets

| ASSETS | 2009 | 2008 |
|---|-------------------|-------------------|
| Current Assets: | | |
| Cash and cash equivalents | \$ 143.6 | \$ 116.1 |
| Accounts receivable (less allowance for doubtful accounts of \$15.2 at May 31, 2009 and \$14.2 at May 31, 2008) | 197.4 | 202.8 |
| Inventories | 344.8 | 358.9 |
| Deferred income taxes | 62.7 | 116.9 |
| Prepaid expenses and other current assets | 40.3 | 58.7 |
| Current assets of discontinued operations | 31.0 | 64.5 |
| Total current assets | 819.8 | 917.9 |
| Property, Plant and Equipment | | |
| Land | 10.6 | 10.7 |
| Buildings | 92.0 | 96.3 |
| Capitalized software | 199.1 | 188.8 |
| Furniture, fixtures and equipment | 249.7 | 281.5 |
| Leasehold improvements | 179.6 | 178.2 |
| | 731.0 | 755.5 |
| Less accumulated depreciation and amortization | (415.6) | (416.9) |
| Net property, plant and equipment | 315.4 | 338.6 |
| Other Assets and Deferred Charges: | | |
| Prepublication costs | 121.5 | 110.6 |
| Royalty advances (less allowance for reserves of \$72.6 at May 31, 2009 and \$64.0 at May 31, 2008) | 41.5 | 48.4 |
| Production costs | 6.0 | 4.9 |
| Goodwill | 157.0 | 164.4 |
| Other intangibles | 46.8 | 47.4 |
| Other assets and deferred charges | 100.8 | 101.0 |
| Noncurrent assets of discontinued operations | | 28.4 |
| Total other assets and deferred charges | 473.6 | 505.1 |
| Total assets | \$ 1,608.8 | \$ 1,761.6 |

See accompanying notes

(Amounts in millions, except share data)
Balances at May 31,

| LIABILITIES AND STOCKHOLDERS EQUITY | 2009 | 2008 |
|---|-------------------|-------------------|
| Current Liabilities: | | |
| Lines of credit and current portion of long-term debt | \$ 53.7 | \$ 54.6 |
| Capital lease obligations | 3.4 | 4.9 |
| Accounts payable | 128.2 | 108.7 |
| Accrued royalties | 41.7 | 45.5 |
| Deferred revenue | 34.2 | 35.4 |
| Other accrued expenses | 138.9 | 171.0 |
| Current liabilities of discontinued operations | 7.3 | 21.9 |
| Total current liabilities | 407.4 | 442.0 |
| Noncurrent Liabilities: | | |
| Long-term debt | 250.0 | 295.1 |
| Capital lease obligations | 54.5 | 56.7 |
| Other noncurrent liabilities | 111.9 | 94.7 |
| Total noncurrent liabilities | 416.4 | 446.5 |
| Commitments and Contingencies: | | |
| Stockholders Equity: | | |
| Preferred Stock, \$1.00 par value Authorized - 2,000,000; Issued - None | | |
| Class A Stock, \$.01 par value Authorized - 4,000,000; Issued and Outstanding 1,656,200 shares | | |
| Common Stock, \$.01 par value Authorized - 70,000,000 shares; Issued - 42,911,624; Outstanding - 34,740,275 (42,882,304 shares Issued and 36,444,518 Outstanding at May 31, 2008) | 0.4 | 0.4 |
| Additional paid-in capital | 552.9 | 539.1 |
| Accumulated other comprehensive loss | (77.1) | (34.7) |
| Retained earnings | 562.8 | 588.3 |
| Treasury stock at cost | (254.0) | (220.0) |
| Total stockholders equity | 785.0 | 873.1 |
| Total liabilities and stockholders equity | \$ 1,608.8 | \$ 1,761.6 |

**Consolidated Statements of Changes in Stockholders
Equity and Comprehensive Income (Loss)**

| | Class A Stock | | Common Stock | | Additional Paid-in Capital |
|---|------------------|---------------|-------------------|---------------|----------------------------------|
| | Shares | Amount | Shares | Amount | |
| Balance at May 31, 2006 | 1,656,200 | \$ 0.0 | 40,282,246 | \$ 0.4 | \$ 458.7 |
| Comprehensive income: | | | | | |
| Net income | | | | | |
| Other comprehensive income, net: | | | | | |
| Foreign currency translation adjustment | | | | | |
| Minimum pension liability adjustment (net of tax of \$1.2) | | | | | |
| Total other comprehensive income | | | | | |
| Total comprehensive income | | | | | |
| Adoption of SFAS No. 158, net of tax \$(8.5) | | | | | |
| Stock-based compensation (SFAS No. 123R) | | | 22,148 | 0.0 | 1.6 |
| Proceeds from issuance of common stock pursuant to employee stock-based plans | | | 1,117,727 | 0.0 | 26.8 |
| Tax benefit realized from employee stock-based plans | | | | | 3.2 |
| Balance at May 31, 2007 | 1,656,200 | \$ 0.0 | 41,422,121 | \$ 0.4 | \$ 490.3 |
| Comprehensive loss: | | | | | |
| Net loss | | | | | |
| Other comprehensive loss, net: | | | | | |
| Foreign currency translation adjustment | | | | | |
| Pension and postretirement adjustments recognized in accordance with SFAS 158 (net of tax of \$(1.2)) | | | | | |
| Total other comprehensive loss | | | | | |
| Total comprehensive loss | | | | | |
| Stock-based compensation (SFAS No. 123R) | | | | | 7.0 |
| Adoption of FIN 48 | | | | | |
| Proceeds from issuance of common stock pursuant to employee stock-based plans | | | 1,460,183 | 0.0 | 37.6 |
| Tax benefit realized from employee stock-based plans | | | | | 4.2 |
| Purchases of treasury stock at cost | | | (6,437,786) | | |
| Balance at May 31, 2008 | 1,656,200 | \$ 0.0 | 36,444,518 | \$ 0.4 | \$ 539.1 |
| Comprehensive loss: | | | | | |
| Net loss | | | | | |
| Other comprehensive loss, net: | | | | | |
| Foreign currency translation adjustment | | | | | |
| Pension and postretirement adjustments recognized in accordance with SFAS 158 (net of tax of \$(3.4)) | | | | | |
| Total other comprehensive loss | | | | | |
| Total comprehensive loss | | | | | |
| Stock-based compensation (SFAS No. 123R) | | | | | 11.6 |
| Proceeds from issuance of common stock pursuant to employee stock-based plans | | | 234,446 | | 2.2 |
| Purchases of treasury stock at cost | | | (1,938,689) | | |

Edgar Filing: SCHOLASTIC CORP - Form 10-K

Dividends

| | | | | | | | | |
|--------------------------------|------------------|-----------|------------|-------------------|-----------|------------|-----------|--------------|
| Balance at May 31, 2009 | 1,656,200 | \$ | 0.0 | 34,740,275 | \$ | 0.4 | \$ | 552.9 |
|--------------------------------|------------------|-----------|------------|-------------------|-----------|------------|-----------|--------------|

See accompanying notes

Edgar Filing: SCHOLASTIC CORP - Form 10-K

| | Deferred Compensation | Accumulated Other Comprehensive Income | Retained Earnings | Treasury Stock At Cost | Total Stockholders Equity |
|---|--------------------------|---|----------------------|------------------------------|---------------------------------|
| Balance at May 31, 2006 | \$ (1.6) | \$ (20.1) | \$ 550.9 | \$ 0.0 | \$ 988.3 |
| Comprehensive income: | | | | | |
| Net income | | | 60.9 | | 60.9 |
| Other comprehensive income, net: | | | | | |
| Foreign currency translation adjustment | | (1.0) | | | (1.0) |
| Minimum pension liability adjustment (net of tax of \$(1.2)) | | 2.3 | | | 2.3 |
| Total other comprehensive income | | | | | 1.3 |
| Total comprehensive income | | | | | 62.2 |
| Adoption of SFAS No. 158, net of tax \$(8.5) | | (15.7) | | | (15.7) |
| Stock-based compensation (SFAS No. 123R) | 1.6 | | | | 3.2 |
| Proceeds from issuance of common stock pursuant to employee stock-based plans | | | | | 26.8 |
| Tax benefit realized from employee stock-based plans | | | | | 3.2 |
| Balance at May 31, 2007 | \$ 0.0 | \$ (34.5) | \$ 611.8 | \$ 0.0 | \$ 1,068.0 |
| Comprehensive loss: | | | | | |
| Net loss | | | (17.2) | | (17.2) |
| Other comprehensive loss, net: | | | | | |
| Foreign currency translation adjustment | | 1.9 | | | 1.9 |
| Pension and postretirement adjustments recognized in accordance with SFAS 158 (net of tax of \$(1.2)) | | (2.1) | | | (2.1) |
| Total other comprehensive loss | | | | | (0.2) |
| Total comprehensive loss | | | | | (17.4) |
| Stock-based compensation (SFAS No. 123R) | | | | | 7.0 |
| Adoption of FIN 48 | | | (6.3) | | (6.3) |
| Proceeds from issuance of common stock pursuant to employee stock-based plans | | | | | 37.6 |
| Tax benefit realized from employee stock-based plans | | | | | 4.2 |
| Purchases of treasury stock at cost | | | | (220.0) | (220.0) |
| Balance at May 31, 2008 | \$ 0.0 | \$ (34.7) | \$ 588.3 | \$ (220.0) | \$ 873.1 |
| Comprehensive loss: | | | | | |
| Net loss | | | (14.3) | | (14.3) |
| Other comprehensive loss, net: | | | | | |
| Foreign currency translation adjustment | | (30.3) | | | (30.3) |
| Pension and postretirement adjustments recognized in accordance with SFAS 158 (net of tax of \$(3.4)) | | (12.1) | | | (12.1) |
| Total other comprehensive loss | | | | | (42.4) |

Edgar Filing: SCHOLASTIC CORP - Form 10-K

| | | | | | | |
|---|-----------|------------|-----------|---------------|--------------|----------------------------|
| Total comprehensive loss | | | | | | (56.7) |
| Stock-based compensation (SFAS No. 123R) | | | | | | 11.6 |
| Proceeds from issuance of common stock pursuant to employee stock-based plans | | | | | | 2.2 |
| Purchases of treasury stock at cost | | | | (34.0) | | (34.0) |
| Dividends | | | | (11.2) | | (11.2) |
| Balance at May 31, 2009 | \$ | 0.0 | \$ | (77.1) | 562.8 | \$ (254.0) \$ 785.0 |

Consolidated Statements of Cash Flows(Amounts in millions)
Years ended May 31,

| | 2009 | 2008 | 2007 |
|---|-----------|-----------|---------|
| Cash flows provided by operating activities: | | | |
| Net (loss) income | \$ (14.3) | \$ (17.2) | \$ 60.9 |
| Loss from discontinued operations, net of tax | (27.5) | (134.5) | (21.8) |
| Earnings from continuing operations | 13.2 | 117.3 | 82.7 |
| Adjustments to reconcile earnings from continuing operations to net cash provided by operating activities of continuing operations: | | | |
| Provision for losses on accounts receivable and other reserves | 56.8 | 43.7 | 42.2 |
| Amortization of prepublication and production costs | 44.8 | 46.1 | 55.1 |
| Depreciation and amortization | 60.7 | 62.2 | 61.4 |
| Deferred income taxes | 38.7 | 14.4 | 4.2 |
| Non cash write off related to asset impairment | 17.0 | | |
| Unrealized loss on investment | 13.5 | | |
| Changes in assets and liabilities: | | | |
| Accounts receivable | (17.7) | 3.5 | (13.3) |
| Inventories | (25.8) | (17.9) | (14.1) |
| Prepaid expenses and other current assets | 7.3 | 10.0 | (5.9) |
| Deferred promotion costs | 0.3 | 0.2 | |
| Royalty advances | (6.6) | (5.0) | (8.8) |
| Accounts payable and other accrued expenses | (2.7) | 13.5 | (25.7) |
| Accrued royalties | (2.5) | 11.1 | 2.1 |
| Deferred revenue | (0.5) | 12.5 | 2.3 |
| Pension and postretirement liability | (4.4) | (7.3) | 17.3 |
| Other net | 13.5 | 11.0 | 0.9 |
| Total adjustments | 192.4 | 198.0 | 117.7 |
| Net cash provided by operating activities of continuing operations | 205.6 | 315.3 | 200.4 |
| Net cash used in operating activities of discontinued operations | (17.0) | (8.8) | (20.9) |
| Net cash provided by operating activities | 188.6 | 306.5 | 179.5 |
| Cash flows used in investing activities: | | | |
| Prepublication expenditures | (52.9) | (54.3) | (42.9) |
| Additions to property, plant and equipment | (45.1) | (56.2) | (47.2) |
| Net proceeds from sale of businesses | 33.0 | | |
| Production expenditures | (4.9) | (4.5) | (5.5) |
| Repayment of loan from investee | 6.0 | 6.2 | 5.6 |
| Loan to investee | (4.4) | (6.1) | (7.7) |
| Acquisition related payments | (4.4) | (2.6) | (7.3) |
| Other | 0.1 | | 6.2 |
| Net cash used in investing activities of continuing operations | (72.6) | (117.5) | (98.8) |
| Net cash used in investing activities of discontinued operations | (0.8) | (5.9) | (8.3) |
| Net cash used in investing activities | (73.4) | (123.4) | (107.1) |
| Cash flows used in financing activities: | | | |
| Borrowings under credit agreement and revolving loan | 220.3 | 190.0 | 349.0 |
| Repayment of credit agreement and revolving loan | (220.3) | (190.0) | (349.0) |

Edgar Filing: SCHOLASTIC CORP - Form 10-K

| | | | |
|---|-----------------|-----------------|----------------|
| Borrowings under term loan | | 200.0 | |
| Repayment of term loan | (42.8) | (21.4) | |
| Repurchase of 5.00% notes | (2.1) | (12.4) | |
| Repurchase of 5.75% notes | | | (294.0) |
| Borrowings under lines of credit | 465.0 | 470.9 | 270.0 |
| Repayment under lines of credit | (461.4) | (524.5) | (238.6) |
| Repayment of capital lease obligations | (4.9) | (5.5) | (7.5) |
| Reacquisition of common stock | (34.0) | (220.0) | |
| Proceeds pursuant to stock-based compensation plans | 2.3 | 37.6 | 26.8 |
| Payment of dividends | (8.4) | | |
| Other | | 0.9 | (0.6) |
| <hr/> | | | |
| Net cash used in financing activities of continuing operations | (86.3) | (74.4) | (243.9) |
| Net cash used in financing activities | (86.3) | (74.4) | (243.9) |
| Effect of exchange rate changes on cash and cash equivalents | (5.7) | (11.1) | (11.0) |
| <hr/> | | | |
| Net increase (decrease) in cash and cash equivalents | 23.2 | 97.6 | (182.5) |
| Cash and cash equivalents at beginning of period, including cash of discontinued operations of \$4.3, \$3.0 and \$5.9 at June 1, 2008, 2007 and 2006, respectively | 120.4 | 22.8 | 205.3 |
| Cash and cash equivalents at end of period, including cash of discontinued operations of \$0.0, \$4.3 and \$3.0 at May 31, 2009, 2008 and 2007, respectively | \$ 143.6 | \$ 120.4 | \$ 22.8 |

See accompanying notes

Consolidated Statements of Cash Flows

(Amounts in millions)
Years ended May 31,

| | 2009 | 2008 | 2007 |
|---|----------|---------|---------|
| Supplemental Information: | | | |
| Income taxes (refunds) payments, net | \$ (5.3) | \$ 45.9 | \$ 24.7 |
| Interest paid | 15.3 | 33.1 | 28.1 |
| Non-cash investing and financing activities: Capital leases | 0.1 | 1.9 | 2.6 |

See accompanying notes

Notes to Consolidated Financial Statements

(Amounts in millions, except share and per share data)

1. DESCRIPTION OF THE BUSINESS, BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Description of the business

Scholastic Corporation (the Corporation and together with its subsidiaries, Scholastic or the Company) is a global children's publishing, education and media company. Since its founding in 1920, Scholastic has emphasized quality products and a dedication to reading and learning. The Company is the world's largest publisher and distributor of children's books and a leading developer of educational technology products. Scholastic also creates quality educational and entertainment materials and products for use in school and at home, including magazines, children's reference and non-fiction materials, teacher materials, television programming, film, videos and toys. The Company is a leading operator of school-based book clubs and book fairs in the United States. It distributes its products and services through these proprietary channels, as well as directly to schools and libraries, through retail stores and through the internet. The Company's website, scholastic.com, is a leading site for teachers, classrooms and parents and an award-winning destination for children. In addition to its operations in the United States, Scholastic has long-established operations in Canada, the United Kingdom, Australia, New Zealand and portions of Asia and newer operations in China, India and Ireland and, through its export business, sells products in over 140 countries.

Basis of presentation

Principles of consolidation

The consolidated financial statements include the accounts of the Corporation and all wholly-owned and majority-owned subsidiaries. All significant intercompany transactions are eliminated in consolidation. Certain prior period presentations have been modified to reflect current period presentations.

Discontinued Operations

As more fully described in Note 2, Discontinued Operations, during fiscal 2008, the Company determined to sell or shut down its domestic, Canadian and UK continuities businesses, and intends to sell a related warehousing and distribution facility located in Maumelle, Arkansas (the Maumelle Facility) and an office and distribution facility in Danbury, Connecticut (the Danbury Facility). During fiscal 2009, the Company also ceased its operations in Argentina and Mexico, its door-to-door selling operations in Puerto Rico as well as its continuities business in Australia and New Zealand and its corporate book fairs business, and closed its Scarsdale, NY store. The Company also sold a trade magazine. Additionally, the Company sold a non-core market research business and a non-core on-line resource for teachers business and intends to sell a Spanish language book channel. All of the above businesses are classified as discontinued operations in the Company's financial statements.

Use of estimates

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

based compensation expense; pension and other post-retirement obligations; tax rates; and recoverability of inventories, deferred income taxes and tax reserves, fixed assets, prepublication costs, and royalty advances, and the fair value of goodwill and other intangibles. In addition, for a description of the significant assumptions and estimates used by management in connection with discontinued operations, see Note 2, Discontinued Operations.

Summary of Significant Accounting Policies

Revenue recognition

The Company's revenue recognition policies for its principal businesses are as follows:

School-Based Book Clubs Revenue from school-based book clubs is recognized upon shipment of the products.

School-Based Book Fairs Revenues associated with school-based book fairs are related to sales of product. Book fairs are typically run by schools and/or parent teacher organizations over a five business day period. At the end of reporting periods, the Company defers revenue for those fairs that have not been completed as of the period end based on the number of fair days occurring after period end on a straight-line calculation of the full fair's revenue.

Trade Revenue from the sale of children's books for distribution in the retail channel is primarily recognized when risks and benefits transfer to the customer, which generally is at the time of shipment, or when the product is on sale and available to the public. A reserve for estimated returns is established at the time of sale and recorded as a reduction to revenue. Actual returns are charged to the reserve as received. The calculation of the reserve for estimated returns is based on historical return rates and sales patterns. A reserve for estimated bad debts is established at the time of sale and is based on the aging of accounts receivable held by the Company's third party administrator. While the Company uses a third party to invoice and collect for shipments made, the Company bears the majority of the responsibility in the case of uncollectible accounts.

Educational Publishing For shipments to schools revenue is recognized when risks and benefits transfer to the customer. Shipments to depositories are on consignment and revenue is recognized based on actual shipments from the depositories to the schools. For certain software-based products, the Company offers new customers installation and training and, in such cases, revenue is recognized as services are provided.

Toy Catalog Revenue from the sale of children's toys to the home through catalogs is recognized when risks and benefits transfer to the customer, which generally is at the time of shipment. A reserve for estimated returns is established at the time of sale and recorded as a reduction to revenue. Actual returns are charged to the reserve as received. The calculation of the reserve for estimated returns is based on historical return rates and sales patterns.

Film Production and Licensing Revenue from the sale of film rights, principally for the home video and domestic and foreign television markets, is recognized when the film has been delivered and is available for showing or exploitation. Licensing revenue is recorded in accordance with royalty agreements at the time the licensed materials are available to the licensee and collections are reasonably assured.

Magazines Revenue is deferred and recognized ratably over the subscription period, as the magazines are delivered.

Magazine Advertising Revenue is recognized when the magazine is on sale and available to the subscribers.

Scholastic In-School Marketing Revenue is recognized when the Company has satisfied its obligations under the program and the customer has acknowledged acceptance of the product or service. Certain revenues may be deferred pending future deliverables.

Cash equivalents

Cash equivalents consist of short-term investments with original maturities of three months or less.

Accounts receivable

Accounts receivable are recorded net of allowances for doubtful accounts and reserves for returns. In the normal course of business, the Company extends credit to customers that satisfy predefined credit criteria. The Company is required to estimate the collectability of its receivables. Reserves for returns are based on historical return rates and sales patterns. Allowances for doubtful accounts are established through the evaluation of accounts receivable agings and prior collection experience to estimate the ultimate collectability of these receivables.

Inventories

Inventories, consisting principally of books, are stated at the lower of cost, using the first-in, first-out method, or market. The Company records a reserve for excess and obsolete inventory based upon a calculation using the historical usage rates and sales patterns of its products.

Property, plant and equipment

Property, plant and equipment are stated at cost. Depreciation and amortization are recorded on a straight-line basis, over estimated useful lives. Buildings have an estimated useful life, for purposes of depreciation, of forty years. Capitalized software is depreciated over a period of three to seven years. Capitalized software, net of accumulated amortization, was \$69.6 and \$76.7 as of May 31, 2009 and May 31, 2008, respectively. Amortization expense for capitalized software was \$25.2, \$21.1 and \$22.4 for the fiscal years ended May 31, 2009, 2008 and 2007, respectively. Furniture, fixtures and equipment are depreciated over periods not exceeding ten years. Leasehold improvements are amortized over the life of the lease or the life of the assets, whichever is shorter. Interest is capitalized on major construction projects based on the outstanding construction-in-progress balance for the period and the average borrowing rate during the period. The Company evaluates the depreciation periods of property, plant and equipment to determine whether events or circumstances warrant revised estimates of useful lives.

Leases

Lease agreements are evaluated to determine whether they are capital or operating leases in accordance with Statement of Financial Accounting Standards (SFAS) No. 13, Accounting For Leases, as amended (SFAS No. 13). When substantially all of the risks and benefits of property ownership have been transferred to the Company, as determined by the test criteria in SFAS No. 13, the lease then qualifies as a capital lease.

Capital leases are capitalized at the lower of the net present value of the total amount of rent payable under the leasing agreement (excluding finance charges) or the fair market value of the leased asset. Capital lease assets are depreciated on a straight-line basis, over a period consistent with the Company's normal depreciation policy for tangible fixed assets, but generally not exceeding the lease term. Interest charges are expensed over the period of the lease in relation to the carrying value of the capital lease obligation.

Rent expense for operating leases, which may include free rent or fixed escalation amounts in addition to minimum lease payments, is recognized on a straight-line basis over the duration of each lease term.

Prepublication costs

The Company capitalizes the art, prepress, editorial and other costs incurred in the creation of the master copy of a book or other media (the prepublication costs). Prepublication costs are amortized on a straight-line basis over a three- to seven-year period based on expected future revenues. The Company regularly reviews the recoverability of the capitalized costs based on expected future revenues.

Royalty advances

Royalty advances are capitalized and expensed as related revenues are earned or when future recovery appears doubtful. The Company records a reserve for the recoverability of its outstanding advances to authors based primarily upon historical earndown experience, and for unpublished titles based upon the likelihood of publication.

Goodwill and intangible assets

Goodwill and other intangible assets with indefinite lives are not amortized and are reviewed for impairment annually or more frequently if impairment indicators arise.

With regard to goodwill, the Company compares the estimated fair value of its identified reporting units to the carrying value of the net assets. For each of the reporting units, the estimated fair value is determined utilizing the expected present value of the projected future cash flows of the units, in addition to comparisons to similar companies. The Company reviews its definition of reporting units annually.

With regard to other intangibles with indefinite lives, the Company determines the fair value by asset, which is then compared to its carrying value. The estimated fair value is determined utilizing the expected present value of the projected future cash flows of the asset. Intangible assets with definite lives consist principally of customer lists, covenants not to compete, and certain other intellectual property assets and are amortized over their expected useful lives. Customer lists are amortized on a straight-line basis over a five-year period, while covenants not to compete are amortized on a straight-line basis over their contractual term. Other intellectual property assets are amortized over their remaining useful lives which range primarily from three to five years.

Income taxes

The Company uses the asset and liability method of accounting for income taxes. Under this method, deferred tax assets and liabilities are determined based on differences between financial reporting and tax bases of assets and liabilities and are measured using enacted tax rates and laws that will be in effect when the differences are expected to enter into the determination of taxable income.

The Company believes that its taxable earnings, during the periods when the temporary differences giving rise to deferred tax assets become deductible or when tax benefit carryforwards may be utilized, should be sufficient to realize the related future income tax benefits. For those jurisdictions where the expiration date of the tax benefit carryforwards or the projected taxable earnings indicate that realization is not likely, the Company establishes a valuation allowance.

In assessing the need for a valuation allowance, the Company estimates future taxable earnings, with consideration for the feasibility of on-going tax planning strategies and the realizability of tax benefit carryforwards, to determine which deferred tax assets are more likely than not to be realized in the future. Valuation allowances related to deferred tax assets can be impacted by changes to tax laws, changes to statutory tax rates and future taxable earnings. In the event that actual results differ from these estimates in future periods, the Company may need to adjust the valuation allowance.

It is the Company's policy to recognize uncertain income tax positions when the tax position is more likely than not to be sustained upon examination. The Company assesses all income tax positions and adjusts its reserves against these positions periodically based upon these criteria. The Company also assesses potential penalties and interest associated with these tax positions, and includes these amounts as a component of income tax expense.

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. The Company's effective tax rate is based on expected income and statutory tax rates and permanent differences between financial statement and tax return income applicable to the Company in the various jurisdictions in which the Company operates.

Other noncurrent liabilities

All of the rate assumptions discussed below impact the Company's calculations of its pension and post-retirement obligations. The rates applied by the Company are based on the portfolios' past average rates of return, discount rates and actuarial information. Any change in market performance, interest rate performance, assumed health care costs trend rate or compensation rates could result in

significant changes in the Company's pension and post-retirement obligations.

Pension obligations Scholastic Corporation and certain of its subsidiaries have defined benefit pension plans covering the majority of their employees who meet certain eligibility requirements. The Company's pension plans and other post-retirement benefits are accounted for using actuarial valuations required by SFAS No. 87, Employers' Accounting for Pensions, and SFAS No. 106, Employers' Accounting for Post-retirement Benefits Other Than Pensions. In September 2006, the Financial Accounting Standards Board (the FASB) released SFAS No. 158, Employers' Accounting for Defined Benefit Pension and Other Post-retirement Plans, an amendment of SFAS No. 87, 88, 106, and 132(R) (SFAS No. 158). On May 31, 2007, the Company adopted the recognition and disclosure provisions of SFAS No. 158, which required the Company to recognize the funded status of its pension plans in its May 31, 2007 consolidated balance sheet, with a corresponding adjustment to accumulated other comprehensive income, net of taxes.

The adjustment to accumulated other comprehensive income at adoption represents the net unrecognized actuarial losses (gains) and unrecognized prior service costs under the Company's pension plans and other post-retirement benefits. These amounts will be subsequently recognized as net periodic pension cost pursuant to the Company's historical accounting policy for amortizing such amounts, or as changes to the plan result in curtailments causing current period recognition. Further, actuarial gains and losses that arise in subsequent periods and are not recognized as net periodic pension cost or net periodic post-retirement benefit cost in the same periods will be recognized as a component of comprehensive income. Those amounts will be subsequently recognized as a component of net periodic pension cost or net periodic post-retirement benefit cost on the same basis as the amounts recognized in accumulated other comprehensive income (loss) at the adoption of SFAS No. 158.

The incremental effect of adopting the provisions of SFAS No. 158 on the Company's consolidated balance sheet at May 31, 2007 was a reduction in stockholders' equity of \$15.7, net of tax. The adoption of SFAS No. 158 had no effect on the Company's results of operations or cash flows for the year ended May 31, 2007, or for any prior period presented, and it did not and will not have any effect on the Company's results of operations or cash flows in periods after May 31, 2007. The Company adopted the measurement provision requirements of SFAS No. 158 effective May 31, 2008.

The adoption of the measurement provision of SFAS No. 158 did not have any effect on the Company's results of operations or cash flows for the year ended May 31, 2008 and did not have any effect on the Company's results of operations or cash flows in the periods after May 31, 2008.

The Company's pension calculations are based on three primary actuarial assumptions: the discount rate, the long-term expected rate of return on plan assets, and the anticipated rate of compensation increases. The discount rate is used in the measurement of the projected, accumulated and vested benefit obligations and the service and interest cost components of net periodic pension costs. The long-term expected return on plan assets is used to calculate the expected earnings from the investment or reinvestment of plan assets. The anticipated rate of compensation increase is used to estimate the increase in compensation for participants of the plan from their current age to their assumed retirement age. The estimated compensation amounts are used to determine the benefit obligations and the service cost. Pension benefits in the cash balance plan for employees located in the United States are based on formulas in which the employees' balances are credited monthly with interest based on the average rate for one-year United States Treasury Bills plus 1%. Contribution credits are based on employees' years of service and compensation levels during their employment periods.

Other post-retirement benefits Scholastic Corporation provides post-retirement benefits, consisting of healthcare and life insurance benefits, to

retired United States-based employees. The post-retirement medical plan benefits are funded on a pay-as-you-go basis, with the Company paying a portion of the premium and the employee paying the remainder. The Company follows SFAS No. 106, Employers' Accounting for Post-retirement Benefits Other than Pensions, in calculating the existing benefit obligation, which is based on the discount rate and the assumed health care cost trend rate. The discount rate is used in the measurement of the projected and accumulated benefit obligations and the service and interest cost components of net periodic post-retirement benefit cost. The assumed health care cost trend rate is used in the measurement of the long-term expected increase in medical claims.

Foreign currency translation

The Company's non-United States dollar-denominated assets and liabilities are translated into United States dollars at prevailing rates at the balance sheet date and the revenues, costs and expenses are translated at the average rates prevailing during each reporting period. Net gains or losses resulting from the translation of the foreign financial statements and the effect of exchange rate changes on long-term intercompany balances are accumulated and charged directly to the foreign currency translation adjustment component of stockholders' equity until such time that the operations are substantially liquidated or sold. The Company does not expect to repatriate earnings from foreign corporate subsidiaries and therefore does not provide for taxes on cumulative translation adjustments within stockholders' equity.

Shipping and handling costs

Amounts billed to customers for shipping and handling are classified as revenue. Costs incurred in shipping and handling are recognized in cost of goods sold.

Earnings per share

Basic earnings per share is based on the weighted average shares of Class A Stock and Common Stock outstanding. Diluted earnings per share is based on the weighted average shares of Class A Stock and Common Stock outstanding adjusted for the impact of potentially dilutive securities outstanding. The dilutive impact of options outstanding is calculated using the treasury stock method, which treats the options as if they were exercised at the beginning of the period, adjusted for Common Stock assumed to be repurchased with the proceeds and tax benefit realized upon exercise. Any potentially dilutive security is excluded from the computation of diluted earnings per share for any period in which it has an anti-dilutive effect. Options that were not included in the computation of diluted earnings per share because to do so would have been anti-dilutive totaled: 6,198,855 at May 31, 2009, 2,770,635 at May 31, 2008 and 3,311,436 at May 31, 2007.

Discontinued Operations

SFAS No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets (SFAS 144), requires the calculation of estimated fair value less cost to sell of long-lived assets for assets held for sale. The calculation of estimated fair value less cost to sell includes significant estimates and assumptions, including, but not limited to: operating projections; excess working capital levels; real estate values; and the anticipated costs involved in the selling process. The Company recognizes operations as discontinued when the operations have either ceased, or are expected to be disposed of in a sale transaction in the near term, the operations and cash flows of all discontinued operations have been eliminated, or will be eliminated upon consummation of the expected sale transaction, and the Company will not have any significant continuing involvement in the discontinued operations subsequent to the expected sale transaction.

Stock-based compensation

The Company adopted the fair value recognition provisions of SFAS No. 123R, Share Based Payment (SFAS No. 123R) as of June 1, 2006, using the modified prospective method. SFAS No. 123R requires the Company to recognize the cost of employee and director services received in exchange for any stock-based awards. Under SFAS No. 123R, the Company recognizes compensation expense on a straight-line basis over an award's requisite service period, which is generally the vesting period, based on the award's fair value at the date of grant.

The fair values of stock options granted by the Company are estimated at the date of grant using the Black-Scholes option-pricing model. The Company's determination of the fair value of share-based payment awards using this option-pricing model is affected by the price of the Common Stock as well as by assumptions regarding highly complex and subjective variables, including, but not limited to, the expected price volatility of the Common Stock over the terms of the awards, the risk-free interest rate, and actual and projected employee stock option exercise behaviors. Estimates of fair value are not intended to predict actual future events or the value that may ultimately be realized by employees or directors who receive these awards.

SFAS No. 123R requires forfeitures to be estimated at the time of grant and revised, if necessary, in subsequent periods if actual forfeitures differ from those estimates in order to derive the Company's best estimate of awards ultimately expected to vest. In determining the estimated forfeiture rates for stock-based awards, the Company periodically conducts an assessment of the actual number of equity awards that have been forfeited previously. When estimating expected forfeitures, the Company considers factors such as the type of award, the employee class and historical experience. The estimate of stock-based awards that will ultimately be forfeited requires significant judgment and, to the extent that actual results or updated estimates differ from current estimates, such amounts will be recorded as a cumulative adjustment in the period such estimates are revised.

The table set forth below provides the estimated fair value of options granted during fiscal years 2009, 2008 and 2007 and the significant weighted average assumptions used in determining the fair value for options granted by the Company under the Black-Scholes option pricing model. The expected life represents an estimate of the period of time stock options are expected to remain outstanding based on the historical exercise behavior of the option grantees. The risk-free interest rate was based on the U.S. Treasury yield curve in effect at the time of the grant corresponding to the expected life. The volatility was estimated based on historical volatility corresponding to the expected life.

| | 2009 | 2008 | 2007 |
|---|---------|----------|----------|
| Estimated fair value of stock options granted | \$ 9.51 | \$ 13.05 | \$ 12.22 |
| Assumptions: | | | |
| Expected dividend yield | 0.7% | 0.0% | 0.0% |
| Expected stock price volatility | 34.3% | 31.2% | 32.9% |
| Risk-free interest rate | 3.4% | 3.9% | 4.7% |
| Expected life of options | 6 years | 6 years | 6 years |

New Accounting Pronouncements

In September 2006, the Financial Accounting Standards Board (FASB) issued SFAS No. 157, Fair Value Measurements (SFAS 157). SFAS 157 defines fair value, establishes a framework for measuring fair value under generally accepted accounting principles, and expands disclosures about fair value measurements. SFAS 157 emphasizes that fair value is a market-based measurement, not an entity-specific measurement, and states that a fair value measurement should be determined based on the assumptions that market participants would use in pricing the asset or liability. In February 2008, the FASB issued FASB Staff Position (FSP) No. FAS 157-1, Application of FASB Statement No. 157 to FASB Statement No. 13 and Other Accounting Pronouncements That Address Fair Value Measurements for Purposes of Lease Classification or Measurement under Statement 13, and FSP No. FAS 157-2, Effective Date of FASB Statement No. 157. Collectively, these Staff Positions allow a one-year deferral of adoption of SFAS 157 for nonfinancial assets and liabilities that are recognized or disclosed at fair value in the financial statements on a non-recurring basis and amend SFAS 157 to exclude FASB Statement No. 13 and its related interpretive accounting pronouncements that address leasing transactions.

The Company adopted SFAS 157 beginning June 1, 2008, except for non financial assets and liabilities measured at fair value on a non-recurring basis, which will be effective for the Company June 1, 2009. The impact of the adoption on June 1, 2008 was not material to the Company's consolidated financial statements. The Company is currently evaluating the impact that the adoption of the deferred portion of

SFAS 157 will have on its consolidated financial position, results of operations and cash flows.

SFAS 157 establishes a three-level hierarchy for fair value measurements to prioritize the inputs used in the valuation techniques to derive fair values. The basis for fair value measurements for each level within the hierarchy is described below with Level 1 having the highest priority and Level 3 having the lowest.

Level 1: Quoted prices in active markets for identical assets or liabilities.

Level 2: Quoted prices for similar assets or liabilities in active markets; quoted prices for identical or similar instruments in markets that are not active; and model-derived valuations in which all significant inputs are observable in active markets.

Level 3: Valuations derived from valuation techniques in which one or more significant inputs are unobservable.

The Company's assets and liabilities measured at fair value on a recurring basis subject to the presentation requirements of SFAS 157 at May 31, 2009 consisted of cash and cash equivalents and foreign currency forward contracts. The foreign currency forward contracts 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 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.

In February 2007, the FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities* (SFAS 159), to provide companies with an option to report selected financial assets and liabilities at fair value. The objective of SFAS 159 is to reduce both the complexity in accounting for financial instruments and the volatility in earnings caused by measuring related assets and liabilities differently. SFAS 159 was effective for the Company beginning June 1, 2008. The Company has not elected to measure any financial assets and financial liabilities at fair value which were not previously required to be measured at fair value. Therefore, the adoption of this standard has had no impact on the Company's consolidated financial position, results of operations and cash flows.

In December 2007, the FASB issued SFAS No. 141 (revised), *Business Combinations* (SFAS 141R). SFAS 141R establishes principles and requirements for how an acquirer accounts for business combinations. SFAS 141R includes guidance for the recognition and measurement of the identifiable assets acquired, the liabilities assumed, and any noncontrolling or minority interest in the acquiree. It also provides guidance for the measurement of goodwill, the recognition of contingent consideration, the accounting for pre-acquisition gain and loss contingencies and acquisition-related transaction costs, and the recognition of changes in the acquirer's income tax valuation allowance. SFAS 141R applies prospectively and is effective for business combinations made by the Company beginning June 1, 2009.

In December 2007, the FASB issued SFAS No. 160, *Noncontrolling Interests in Consolidated Financial Statements, an amendment of ARB No. 51*, (SFAS 160). SFAS 160 amends Accounting Research Bulletin No. 51, *Consolidated Financial Statements*, to establish accounting and reporting standards for any noncontrolling interest in a subsidiary and for the deconsolidation of a subsidiary. SFAS 160 clarifies that a noncontrolling interest in a subsidiary should be reported as a component of equity in the consolidated financial statements and requires disclosure, on the face of the consolidated statement of income, of the amounts of consolidated net income attributable to the parent and to the noncontrolled interest. SFAS 160 is effective for the Company beginning June 1, 2009 and is to be applied prospectively, except for the presentation and disclosure requirements, which upon adoption will be applied retrospectively for all periods presented. The Company is currently evaluating the impact, if any, that SFAS 160 will have on its

consolidated financial position, results of operations and cash flows.

In April 2008, the FASB issued FSP No. FAS 142-3, *Determination of the Useful Life of Intangible Assets* (FAS 142-3). FAS 142-3 amends the factors that should be considered in developing renewal or extension assumptions used to determine the useful life of a recognized intangible asset under FASB Statement No. 142, *Goodwill and Other Intangible Assets*. FAS 142-3 is effective for fiscal years beginning after December 15, 2008 and early adoption is prohibited. The Company is currently evaluating the impact, if any, that FAS 142-3 will have on its consolidated financial position, results of operations and cash flows.

In June 2008, the FASB issued FSP No. EITF 03-6-1, *Determining Whether Instruments Granted in Share-Based Payment Transactions Are Participating Securities* (FSP 03-6-1), which classifies unvested share-based payment awards that contain non-forfeitable rights to dividends or dividend equivalents as participating securities and requires them to be included in the computation of earnings per share, pursuant to the two-class method described in SFAS No. 128, *Earnings per Share*. FSP 03-6-1 is effective for financial statements issued for fiscal years beginning after December 15, 2008, and interim periods within those years. It requires all prior period earnings per-share data presented to be adjusted retrospectively. The adoption of FSP EITF 03-6-1 did not materially impact the disclosures of historical earnings per share.

In May 2009, the FASB issued SFAS No. 165, *Subsequent Events* (SFAS 165), which establishes standards of accounting for and disclosure of events that occur after the balance sheet date but before financial statements are issued or are available to be issued. It requires the disclosure of the date through which an entity has evaluated subsequent events and the basis for that date, i.e., whether that date represents the date the financial statements were issued or were available to be issued. SFAS 165 is effective for interim or annual financial periods ending after June 15, 2009.

In June 2009, the FASB issued SFAS No. 168, *Accounting Standards Codification* (SFAS 168), which will become the source of authoritative U.S. generally accepted accounting principles or GAAP. Rules and interpretive releases of the Securities and Exchange Commission or SEC under authority of federal securities laws are also sources of authoritative GAAP for SEC registrants. SFAS No. 168 is effective for financial statements issued for interim and annual periods ending after September 15, 2009, and applies to financial statements of nongovernmental entities that are presented in conformity with GAAP.

2. DISCONTINUED OPERATIONS

During fiscal 2008, the Company determined to sell or shut down its domestic, Canadian and UK continuities businesses, and intends to sell a related warehousing and distribution facility located in Maumelle, Arkansas (the Maumelle Facility) and an office and distribution facility in Danbury, Connecticut (the Danbury Facility). During fiscal 2009, the Company also ceased its operations in Argentina and Mexico, its door-to-door selling operations in Puerto Rico as well as its continuities business in Australia and New Zealand and its corporate book fairs business, and closed its Scarsdale, NY store. The Company also sold a trade magazine. Additionally, the Company sold a non-core market research business and a non-core online resource for teachers business and intends to sell a Spanish language book channel.

In accordance with SFAS No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets (SFAS 144), the results of operations for the aforementioned operations are presented in the Company's Condensed Consolidated Financial Statements as discontinued operations. SFAS 144 requires adjustments to the carrying value of assets held for sale if the carrying value exceeds their estimated fair value less cost to sell. The calculation of estimated fair value less cost to sell includes significant estimates and assumptions, including, but not limited to: operating projections and the discount rate and terminal values developed in connection with the discounted cash flow; excess working capital levels; real estate fair values; and the anticipated costs involved in the selling process. The Company prepared separate financial statements reflecting the discontinued operations presentation, which required management to make significant judgments and estimates for purposes of allocating to the discontinued operations certain operating expenses, such as warehousing and distribution expenses, as well as assets, liabilities and other balance sheet items, including accounts payable and certain noncurrent liabilities. The following table summarizes the operating results of the discontinued operations for the fiscal years ended May 31:

| | 2009 | 2008 | 2007 |
|--|----------------|-----------------|----------------|
| Revenues | \$ 74.2 | \$ 253.6 | \$ 308.6 |
| Gain on sale | 32.0 | | |
| Non-cash impairment charge and loss on operations | 62.2 | 206.6 | 29.4 |
| Loss before income taxes | 30.2 | 206.6 | 29.4 |
| Income tax benefit (expense) | 2.7 | 72.1 | 7.6 |
| Loss from discontinued operations, net of tax | \$ 27.5 | \$ 134.5 | \$ 21.8 |

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 May 31:

| | 2009 | 2008 |
|---|----------------|----------------|
| Accounts Receivable, net | \$ 13.6 | \$ 33.1 |
| Inventories, net | 0.8 | 15.9 |
| Other assets | 16.6 | 15.5 |
| Current assets of discontinued operations | \$ 31.0 | \$ 64.5 |
| Noncurrent assets of discontinued operations | | 28.4 |
| Accounts payable | 2.2 | 9.1 |
| Accrued expenses and other current liabilities | 5.1 | 12.8 |
| Current liabilities of discontinued operations | \$ 7.3 | \$ 21.9 |

3. SEGMENT INFORMATION

The Company categorizes its businesses into four reportable segments: *Children's Book Publishing and Distribution*; *Educational Publishing*; *Media, Licensing and Advertising* (which collectively represent the Company's domestic operations); and *International*.

Children's Book Publishing and Distribution operates as an integrated business which includes the publication and distribution of children's books 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 Publishing includes the production and/or publication and distribution to schools and libraries of educational technology products, curriculum materials, children's books, classroom magazines 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, merchandising and advertising revenue, including sponsorship programs and consumer promotions. This segment is comprised of three 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.

Edgar Filing: SCHOLASTIC CORP - Form 10-K

The following table sets forth information for the three fiscal years ended May 31 for the Company's segments:

| | Children's Book Publishing and Distribution ⁽¹⁾ | Educational Publishing ⁽¹⁾ | Media, Licensing and Advertising ⁽¹⁾ | Overhead ⁽¹⁾⁽²⁾ | Total Domestic | International ⁽¹⁾ | Total |
|---|--|--|--|----------------------------|-------------------|------------------------------|------------|
| 2009 | | | | | | | |
| Revenues | \$ 913.5 | \$ 384.2 | \$ 152.6 | \$ 0.0 | \$ 1,450.3 | \$ 399.0 | \$ 1,849.3 |
| Bad debts | 10.0 | 1.6 | 0.3 | 0.0 | 11.9 | 3.9 | 15.8 |
| Depreciation and amortization ⁽³⁾ | 16.3 | 3.8 | 1.0 | 33.8 | 54.9 | 5.8 | 60.7 |
| Amortization ⁽⁴⁾ | 12.3 | 22.5 | 7.9 | 0.0 | 42.7 | 2.1 | 44.8 |
| Royalty advances expensed | 26.3 | 1.7 | 0.6 | 0.0 | 28.6 | 3.6 | 32.2 |
| Segment profit/(loss) | 89.7 | 55.8 | 12.1 | (94.5) | 63.1 | 7.3 | 70.4 |
| Segment assets | 560.7 | 331.2 | 59.4 | 373.6 | 1,324.9 | 252.9 | 1,577.8 |
| Goodwill | 54.3 | 88.4 | 5.8 | 0.0 | 148.5 | 8.5 | 157.0 |
| Expenditures for long-lived assets | 48.5 | 37.7 | 12.3 | 25.0 | 123.5 | 10.0 | 133.5 |
| Long-lived assets | 186.9 | 206.3 | 27.2 | 221.9 | 642.3 | 73.0 | 715.3 |
| 2008 | | | | | | | |
| Revenues | \$ 1,161.4 | \$ 407.1 | \$ 140.8 | \$ 0.0 | \$ 1,709.3 | \$ 449.8 | \$ 2,159.1 |
| Bad debts | 5.7 | (0.9) | 0.6 | 0.0 | 5.4 | 3.2 | 8.6 |
| Depreciation and amortization ⁽³⁾ | 18.1 | 3.2 | 1.4 | 32.6 | 55.3 | 6.9 | 62.2 |
| Amortization ⁽⁴⁾ | 12.4 | 24.6 | 6.8 | 0.0 | 43.8 | 2.3 | 46.1 |
| Royalty advances expensed | 23.2 | 1.2 | 0.6 | 0.0 | 25.0 | 3.8 | 28.8 |
| Segment profit/(loss) | 175.0 | 65.9 | 7.3 | (77.1) | 171.1 | 42.3 | 213.4 |
| Segment assets | 538.8 | 333.8 | 59.7 | 430.6 | 1,362.9 | 305.8 | 1,668.7 |
| Goodwill | 38.2 | 89.0 | 5.8 | 0.0 | 133.0 | 31.4 | 164.4 |
| Expenditures for long-lived assets | 55.7 | 36.0 | 14.0 | 22.4 | 128.1 | 16.5 | 144.6 |
| Long-lived assets | 179.8 | 200.5 | 26.3 | 230.1 | 636.7 | 117.7 | 754.4 |
| 2007 | | | | | | | |
| Revenues | \$ 928.2 | \$ 406.2 | \$ 148.7 | \$ 0.0 | \$ 1,483.1 | \$ 387.5 | \$ 1,870.6 |
| Bad debts | 4.9 | 1.0 | 1.7 | 0.0 | 7.6 | 3.5 | 11.1 |
| Depreciation and amortization ⁽³⁾ | 16.0 | 4.0 | 2.3 | 31.9 | 54.2 | 7.2 | 61.4 |
| Amortization ⁽⁴⁾ | 13.8 | 28.3 | 11.1 | 0.0 | 53.2 | 1.9 | 55.1 |
| Royalty advances expensed | 19.5 | 1.4 | 1.1 | 0.0 | 22.0 | 3.0 | 25.0 |
| Segment profit/(loss) | 104.8 | 77.8 | 13.1 | (78.0) | 117.7 | 35.4 | 153.1 |
| Segment assets | 464.6 | 328.8 | 55.5 | 388.5 | 1,237.4 | 284.6 | 1,522.0 |
| Goodwill | 38.2 | 90.2 | 5.8 | 0.0 | 134.2 | 31.3 | 165.5 |
| Expenditures for long-lived assets | 54.5 | 34.2 | 11.2 | 20.9 | 120.8 | 12.3 | 133.1 |
| Long-lived assets | 176.8 | 196.9 | 23.6 | 240.3 | 637.6 | 111.3 | 748.9 |

Edgar Filing: SCHOLASTIC CORP - Form 10-K

- (1) During fiscal 2008, the Company determined to sell or shut down its domestic, Canadian and UK continuities businesses, and intends to sell the Maumelle Facility and the Danbury Facility. During fiscal 2009, the Company also ceased its operations in Argentina and Mexico, its door-to-door selling operations in Puerto Rico, as well as its continuities business in Australia and New Zealand and its corporate book fairs business, and closed its Scarsdale, NY store. The Company also sold a trade magazine. Additionally, the Company sold a non-core market research business and a non-core on-line resource for teachers business and intends to sell a Spanish language book channel. All of the above businesses are classified as discontinued operations in the Company's financial statements and, as such, are not reflected in this table.
- (2) 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 and its fulfillment and distribution facilities located in Missouri.
- (3) Includes depreciation of property, plant and equipment and amortization of intangible assets, but excludes amortization of promotion costs.
- (4) Includes amortization of prepublication costs and production costs, but excludes amortization of promotion costs.

4. DEBT

The following table summarizes debt as of May 31:

| | Carrying Value | Fair Value | Carrying Value | Fair Value |
|---|-------------------|-----------------|-------------------|-----------------|
| | 2009 | | 2008 | |
| Lines of credit | \$ 10.9 | \$ 10.9 | \$ 11.8 | \$ 11.8 |
| Loan Agreement: | | | | |
| Revolving Loan | | | | |
| Term Loan | 135.8 | 135.8 | 178.6 | 178.6 |
| 5% Notes due 2013, net of discount | 157.0 | 129.6 | 159.3 | 134.8 |
| Total debt | 303.7 | 276.3 | 349.7 | 325.2 |
| Less lines of credit, short-term debt and current portion of long-term debt | (53.7) | (53.7) | (54.6) | (54.6) |
| Total long-term debt | \$ 250.0 | \$ 222.6 | \$ 295.1 | \$ 270.6 |

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. 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 carrying values of the Company's debt obligations as of May 31, 2009 for fiscal years ended May 31:

| | |
|-------------------|-----------------|
| 2010 | \$ 53.7 |
| 2011 | 42.8 |
| 2012 | 42.8 |
| 2013 | 164.4 |
| Thereafter | |
| Total debt | \$ 303.7 |

Loan Agreement

On June 1, 2007, Scholastic Corporation and Scholastic Inc. (each, a Borrower and together, the Borrowers) elected to replace the Company's then-existing credit facilities with a new \$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 is a contractually committed unsecured credit facility that is scheduled to expire on June 1, 2012. The \$325.0 Revolving Loan component 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. The \$200.0 Term Loan component was established in order to fund the reacquisition by the Corporation of shares of its Common Stock pursuant to an Accelerated Share Repurchase Agreement (see Note 10, Treasury Stock) and was fully drawn on June 28, 2007 in connection with that transaction. The Term Loan, which may be prepaid at any time without penalty, requires quarterly principal payments of \$10.7, with the first payment on December 31, 2007, and a final payment of \$7.4 due on June 1, 2012. Interest on both the Term Loan and 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). At the election of the Borrower, the interest rate charged for each loan made under the Loan Agreement is based on (1) a rate equal to the higher of (a) the prime rate or (b) the prevailing Federal Funds rate plus 0.500% or (2) an adjusted LIBOR rate plus an applicable margin, ranging from 0.500% to 1.250% based on the Company's prevailing consolidated debt to total capital ratio. As of May 31, 2009 and 2008, the applicable margin on the Term Loan was 0.875% and the applicable margin on the Revolving Loan was 0.700%. The Loan Agreement also provides for a payment of a facility fee ranging from 0.125% to 0.25% per annum on the Revolving Loan only, which at May 31, 2009 and 2008 was 0.175%. As of May 31, 2008, \$178.6 was outstanding under the Term Loan at an interest rate of 3.8%. There were no outstanding borrowings under the Revolving Loan as of May 31, 2008. As of May 31, 2009, \$135.8 was outstanding under the Term Loan at an interest rate of 1.2%. There were no outstanding borrowings under the Revolving Loan as of May 31, 2009. As of May 31, 2009, standby letters of credit outstanding under the Loan Agreement totaled \$0.5. 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 May 31, 2009 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. In fiscal year 2009, the Company repurchased an additional \$2.5 of the 5% Notes on the open market, while \$14.5 was repurchased in fiscal year 2008. On June 29, 2009, the Company repurchased \$5.0 of the 5% Notes on the open market.

Lines of Credit

In May 2009 and during the fourth quarter of fiscal 2008, the Company entered into unsecured money market bid rate credit lines totaling \$20.0 and \$50.0, respectively. There were no outstanding borrowings under these credit lines at May 31, 2009 and May 31, 2008. 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 180 days for fiscal 2009 and 364 days for fiscal 2008 and may be renewed, if requested by the Company, at the sole option of the lender.

As of May 31, 2009, the Company had various local currency credit lines, with maximum available borrowings in amounts equivalent to \$40.4, 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 facilities equivalent to \$10.9 at May 31, 2009 at a weighted average interest rate of 3.3%, as compared to the equivalent of \$11.8 at May 31, 2008 at a weighted average interest rate of 6.4%.

5. COMMITMENTS AND CONTINGENCIES

Lease obligations

The Company leases warehouse space, office space and equipment under various capital and operating leases over periods ranging from one to forty years. Certain of these leases provide for scheduled rent increases based on price-level factors. The Company generally does not enter into leases that call for contingent rent. In most cases, management expects that, in the normal course of business, leases will be renewed or replaced. Net rent expense relating to the Company's non-cancelable operating leases for the three fiscal years ended May 31, 2009, 2008 and 2007 was \$45.3, \$45.9 and \$44.1, respectively.

The Company was obligated under capital leases covering land, buildings and equipment in the amount of \$57.9 and \$61.6 at May 31, 2009 and 2008, respectively. Amortization of assets under capital leases is included in depreciation and amortization expense.

The following table sets forth the composition of capital leases reflected as Property, Plant and Equipment in the Consolidated Balance Sheets at May 31:

| | 2009 | 2008 |
|--------------------------|----------------|----------------|
| Land | \$ 3.5 | \$ 3.5 |
| Buildings | 39.0 | 39.0 |
| Equipment | 19.0 | 52.1 |
| | 61.5 | 94.6 |
| Accumulated amortization | (25.3) | (53.0) |
| Total | \$ 36.2 | \$ 41.6 |

The following table sets forth the aggregate minimum future annual rental commitments at May 31, 2009 under all non-cancelable leases for fiscal years ending May 31:

| | Operating Leases | Capital Leases |
|------|---------------------|-------------------|
| 2010 | \$ 36.4 | \$ 8.6 |
| 2011 | 30.0 | 6.0 |
| 2012 | 25.3 | 5.6 |
| 2013 | 21.6 | 6.2 |
| 2014 | 17.1 | 5.1 |

Edgar Filing: SCHOLASTIC CORP - Form 10-K

| | | | |
|--|-----------|-------|-------------|
| Thereafter | | 58.0 | 201.3 |
| <hr/> | | | |
| Total minimum lease payments | \$ | 188.4 | \$ 232.8 |
| | | <hr/> | |
| Less amount representing interest | | | 174.9 |
| <hr/> | | | |
| Present value of net minimum capital lease payments | | | 57.9 |
| Less current maturities of capital lease obligations | | | 3.4 |
| <hr/> | | | |
| Long-term capital lease obligations | \$ | | 54.5 |
| <hr/> | | | |

Other Commitments

The Company had contractual commitments relating to royalty advances at May 31, 2009 totaling \$6.3. The aggregate annual commitments for royalty advances are as follows: fiscal 2010 \$3.7; fiscal 2011 \$1.7; fiscal 2012 \$0.5; fiscal 2013 \$0.1; fiscal 2014 \$0.3.

The Company had contractual commitments relating to minimum print quantities at May 31, 2009 totaling \$482.2. The annual commitments relating to minimum print quantities are as follows: fiscal 2010 \$39.3; fiscal 2011 \$40.2; fiscal 2012 \$41.0; fiscal 2013 \$41.9; fiscal 2014 \$42.8; thereafter \$277.0.

At May 31, 2009, the Company had open standby letters of credit of \$7.4 issued under certain credit lines, as compared to \$8.4 as of May 31, 2008. These letters of credit expire within one year; however, the Company expects that substantially all of these letters of credit will be renewed, at similar terms, prior to expiration.

Contingencies

As previously reported in the Company's Quarterly Report on Form 10-Q for the period ended August 31, 2007 and the Company's Annual Report on Form 10-K for the fiscal year ended May 31, 2008, as amended, the Company is party to certain actions filed by each of Alaska Laborers Employers Retirement Fund and Paul Baicu, which were consolidated on November 8, 2007. On September 25, 2008, the plaintiff sought leave of the Court to file a second amended class action complaint, in order to add allegations relating to the Company's restatement announced in the Company's Annual Report on Form 10-K filed on July 30, 2008. The Court thereafter dismissed the Company's pending motion to dismiss as moot. On October 21, 2008, the plaintiff filed the second amended complaint, and on October 31, 2008, the Company filed a motion to dismiss the second amended complaint, which remains pending. The second amended class action complaint continues to allege securities fraud relating to statements made by the Company concerning its operations and financial results between March 2005 and March 2006 and seeks unspecified compensatory damages. The Company continues to believe that the allegations in such complaint are without merit and is vigorously defending the lawsuit.

In addition to the above suits, various claims and lawsuits arising in the normal course of business are pending against the Company. The results of these proceedings are not expected to have a material adverse effect on the Company's consolidated financial position or results of operations.

6. INVESTMENTS

Included in the Other Assets and Deferred Charges Section of the Company's Consolidated Balance Sheets were investments of \$27.1 and \$40.1 at May 31, 2009 and May 31, 2008, respectively.

The Company owns non-controlling interests in a book distribution business and related entities located in the United Kingdom. Results of these operations have been negatively impacted by overall market conditions, and accordingly, the Company has determined that these assets are partially impaired. For the fiscal year ended May 31, 2009, the Company recorded impairments on investments related to these operations of \$13.5, reducing the Company's carrying value of these assets to \$9.0.

In fiscal 2007, the Company participated in the organization of a new entity, the Children's Network Venture LLC (Children's Network) that produces and distributes educational children's television programming under the name Qubo. Since inception in August 2006, the Company has contributed a total of \$5.4 in cash and certain rights to existing television programming to the Children's Network. The Company's investment, which consists of a 12.25% equity interest, is accounted for using the equity method of accounting. The net value of this investment at May 31, 2009 was \$1.3.

7. GOODWILL AND OTHER INTANGIBLES

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

The following table summarizes the activity in Goodwill for the fiscal years ended May 31:

| | 2009 | 2008 |
|-------------------------|-----------------|-----------------|
| Beginning balance | \$ 164.4 | \$ 165.5 |
| Impairment charge | (17.0) | |
| Deferred tax adjustment | 16.1 | |
| Purchase adjustment | (0.7) | (1.2) |
| Currency exchange | (5.8) | 0.1 |
| Ending balance | \$ 157.0 | \$ 164.4 |

Edgar Filing: SCHOLASTIC CORP - Form 10-K

At February 28, 2009, the total market value of the Company's outstanding Common and Class A shares was less than the carrying value of the Company's net assets. Due to the reduced total market value of the Company's Common Stock, the Company evaluated the goodwill for its reporting units for impairment as of February 28, 2009. The Company employed internally

developed discounted cash flow forecasts to determine the fair values of its reporting units, based upon the best available financial data. The Company concluded that goodwill associated with the Company's United Kingdom operations was impaired as of February 28, 2009, and recognized a goodwill impairment of \$17.0. Operating results in the United Kingdom have declined in recent periods. The Company subsequently performed its annual test for goodwill impairment in the fourth quarter of 2009, and determined that no additional goodwill, other than the aforementioned goodwill attributable to the UK operations, is impaired.

The purchase adjustments in fiscal 2009 and 2008 are related to the acquisition of a school consulting and professional development services company in fiscal 2007. The deferred tax adjustment relates to a prior acquisition included in the Children's Book Publishing and Distribution segment.

The following table summarizes Other intangibles subject to amortization as of May 31:

| | 2009 | 2008 |
|------------------------------|---------------|---------------|
| Customer lists | \$ 1.0 | \$ 1.0 |
| Accumulated amortization | (0.9) | (0.8) |
| Net customer lists | \$ 0.1 | \$ 0.2 |
| Other intangibles | \$ 8.4 | \$ 8.4 |
| Accumulated amortization | (5.6) | (5.2) |
| Net other intangibles | \$ 2.8 | \$ 3.2 |
| Total | \$ 2.9 | \$ 3.4 |

Amortization expense for Other intangibles totaled \$0.7, \$2.5 and \$0.2 for the fiscal years ended May 31, 2009, 2008 and 2007, respectively. Amortization expense for these assets is currently estimated to be \$0.7, \$0.6, \$0.6, \$0.6 and \$0.5 for fiscal years 2010, 2011, 2012, 2013 and 2014, respectively. 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 following table summarizes Other intangibles not subject to amortization as of May 31:

| | 2009 | 2008 |
|------------------------------------|----------------|----------------|
| Net carrying value by major class: | | |
| Titles | \$ 28.7 | \$ 28.7 |
| Trademarks and Other | 15.2 | 15.3 |
| Total | \$ 43.9 | \$ 44.0 |

8. INCOME TAXES

The provisions for income taxes for the fiscal years ended May 31, 2009, 2008 and 2007 are based on earnings from continuing operations before taxes as follows:

| | 2009 | 2008 | 2007 |
|--|------|------|------|
| | | | |

Edgar Filing: SCHOLASTIC CORP - Form 10-K

| | | | |
|-------------------|----------------|-----------------|-----------------|
| United States | \$ 50.9 | \$ 170.4 | \$ 107.1 |
| Non-United States | (16.3) | 15.8 | 18.1 |
| Total | \$ 34.6 | \$ 186.2 | \$ 125.2 |

The provisions for income taxes attributable to earnings from continuing operations for the fiscal years ended May 31, 2009, 2008 and 2007 consist of the following components:

| | 2009 | 2008 | 2007 |
|------------------------|----------------|----------------|----------------|
| Federal | | | |
| Current | \$ 10.4 | \$ 49.4 | \$ 18.9 |
| Deferred | 2.9 | 4.3 | 13.1 |
| | \$ 13.3 | \$ 53.7 | \$ 32.0 |
| State and local | | | |
| Current | \$ 1.1 | \$ 5.8 | \$ 4.3 |
| Deferred | 0.3 | 0.4 | (0.3) |
| | \$ 1.4 | \$ 6.2 | \$ 4.0 |
| International | | | |
| Current | \$ 5.5 | \$ 9.3 | \$ 7.5 |
| Deferred | 1.2 | (0.3) | (1.0) |
| | \$ 6.7 | \$ 9.0 | \$ 6.5 |
| Total | | | |
| Current | \$ 17.0 | \$ 64.5 | \$ 30.7 |
| Deferred | 4.4 | 4.4 | 11.8 |
| | \$ 21.4 | \$ 68.9 | \$ 42.5 |

Edgar Filing: SCHOLASTIC CORP - Form 10-K

The provisions for income taxes for the fiscal years ended May 31, 2009, 2008 and 2007 differ from the amount of tax determined by applying the federal statutory rate as follows:

| | 2009 | 2008 | 2007 |
|---|----------------|----------------|----------------|
| Computed federal statutory provision | \$ 12.1 | \$ 65.1 | \$ 43.8 |
| State income tax provision, net of federal income tax benefit | 1.5 | 6.2 | 4.0 |
| Difference in effective tax rates on earnings of foreign subsidiaries | (0.3) | (1.5) | 3.0 |
| Charitable contributions | (0.4) | | (1.0) |
| Tax credits | | (2.4) | (4.9) |
| Valuation allowances | 5.1 | 3.3 | |
| Other net | 3.4 | (1.8) | (2.4) |
| Total provision for income taxes | \$ 21.4 | \$ 68.9 | \$ 42.5 |
| Effective tax rates | 61.8% | 37.0% | 33.9% |

The undistributed earnings of foreign subsidiaries at May 31, 2009 were \$33.2. Any remittance of foreign earnings would not result in any significant additional tax. The Company does not anticipate repatriating amounts permanently invested in foreign wholly-owned subsidiaries.

The following table sets forth the tax effects of items that give rise to deferred tax assets and liabilities at May 31, 2009 and 2008, including deferred tax assets of discontinued operations:

| | 2009 | 2008 |
|--|-----------------|-----------------|
| Net deferred tax assets | | |
| Tax uniform capitalization | \$ 22.2 | \$ 25.3 |
| Inventory reserves | 24.8 | 34.5 |
| Allowance for doubtful accounts | 5.0 | 18.2 |
| Other reserves | 8.6 | 19.2 |
| Post-retirement, post-employment and pension obligations | 21.6 | 27.4 |
| Tax carryforwards | 68.7 | 19.5 |
| Lease accounting | 8.0 | 8.7 |
| Prepaid expenses | | 0.1 |
| Depreciation and amortization | (50.9) | (7.7) |
| Other net | 43.5 | 15.3 |
| Subtotal | 151.5 | 160.5 |
| Valuation allowance | (30.1) | (14.5) |
| Total net deferred tax assets | \$ 121.4 | \$ 146.0 |

Total net deferred tax assets of \$121.4 at May 31, 2009 and \$146.0 at May 31, 2008 include \$62.7 and \$116.9, respectively in Other current assets. Total non current deferred tax assets of \$58.7 and \$29.1 are reflected in Other noncurrent assets at May 31, 2009 and 2008, respectively.

At May 31, 2009, the Company had a charitable deduction carryforward of \$15.9, which expires in various amounts during the fiscal years ending 2010 through 2014, and federal and state operating loss carryforwards of \$84.9 and \$12.8, respectively, which expire annually in varying amounts if not utilized. The Company also had foreign operating loss carryforwards of \$65.8 at May 31, 2009, which either expire at various dates or do not expire.

For the years ended May 31, 2009 and 2008, the valuation allowance increased by \$15.6 and \$1.5, respectively.

Edgar Filing: SCHOLASTIC CORP - Form 10-K

On June 1, 2007, the Company adopted the provisions of FIN 48 which clarify the accounting standards for uncertain income tax positions. As of June 1, 2008, the total amount of unrecognized tax benefits was \$33.1 net of \$6.7 accrued for interest and penalties. Of this total, approximately \$16.2 represents the total amount of unrecognized tax benefits. If recognized, these unrecognized benefits may impact the effective tax rate. The June 1, 2008 balance includes \$16.9 of uncertain tax positions where the deductibility is highly certain, but uncertainty exists regarding the timing of such deductions. The disallowance of uncertain tax positions due to timing of deductions would not impact the annual effective tax rate but would accelerate the payment of cash to the taxing authority to an earlier period. The Company's policy is to classify interest and penalties related to unrecognized tax benefits as part of its income tax provision.

A reconciliation of the beginning and ending amount of unrecognized tax benefits is as follows:

| | |
|--|----------------|
| Gross unrecognized tax benefits at June 1, 2007 | \$ 34.0 |
| Gross decreases of tax positions for prior years | (5.4) |
| Gross increase in tax positions for current year | 4.7 |
| Settlements | |
| Lapse of statute of limitation | (0.2) |
| Gross unrecognized tax benefits at May 31, 2008 | \$ 33.1 |
| Gross decreases of tax positions for prior years | (1.2) |
| Gross increase in tax positions for current year | 1.7 |
| Settlements | |
| Lapse of statute of limitation | |
| Gross unrecognized tax benefits at May 31, 2009 | \$ 33.6 |

The net increases in unrecognized tax benefits in the above table were primarily due to the continuation of prior uncertain tax positions. There were no settlements related to income tax positions and no material positions were completed due to statute of limitations. Factors that could cause the recognition of tax benefits include but are not limited to statutory limitations on audits, the settlement of audits with tax authorities, changes in law and changes in estimates.

The Company, including subsidiaries, files income tax returns in the U.S., various states and various 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, 2004, 2005 and 2006, and is also subject to changes for May 2003. The Company is also currently under audit by both New York State and New York City for its fiscal years ended May 31, 2002, 2003 and 2004. 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. It is not practicable to estimate the range of reasonably possible changes to unrecognized tax benefits for the upcoming 12 months due in part to the timing and resolution of outstanding audits.

The total amount of unrecognized tax benefits as of May 31, 2009 was \$33.6, net of \$8.5 accrued for interest and penalties. Approximately \$15.1 of this amount would, if recognized, impact income tax expense and have an impact on the effective income tax rate. The May 31, 2009 balance includes \$18.5 of uncertain tax positions where the deductibility is highly certain, but uncertainty exists regarding the timing of such deductions.

9. CAPITAL STOCK AND STOCK-BASED AWARDS

Scholastic Corporation has authorized capital stock of: 4,000,000 shares of Class A Stock; 70,000,000 shares of Common Stock; and 2,000,000 shares of Preferred Stock.

Class A Stock and Common Stock

The only voting rights vested in the holders of Common Stock, except as required by law, are the election of such number of directors as shall equal at least one-fifth of the members of the Board. The Class A Stockholders are entitled to elect all other directors and to vote on all other matters. The Class A Stockholders and the holders of Common Stock are entitled to one vote per share on matters on which they are entitled to vote. The Class A Stockholders have the right, at their option, to convert shares of Class A Stock into shares of Common Stock on a share-for-share basis.

With the exception of voting rights and conversion rights, and as to the rights of holders of Preferred Stock if issued, the Class A Stock and the Common Stock are equal in rank and are entitled to dividends and distributions, when and if declared by the Board.

At May 31, 2009, there were 1,656,200 shares of Class A Stock and 34,740,275 shares of Common Stock outstanding. At May 31, 2009, there were 1,499,000 shares of Class A Stock authorized for issuance under the Company's stock-based compensation plans. At May 31, 2009, Scholastic Corporation had reserved for issuance 10,571,322 shares of Common Stock, which includes both shares of Common Stock that were reserved for issuance under the Company's stock-based compensation plans and the 3,155,200 shares of Common Stock that were reserved for the potential issuance of Common Stock upon conversion of the outstanding shares of Class A Stock and the shares of Class A Stock that were reserved for issuance under the Company's stock-based compensation plans.

Preferred Stock

The Preferred Stock may be issued in one or more series, with the rights of each series, including voting

rights, to be determined by the Board before each issuance. To date, no shares of Preferred Stock have been issued.

Stock-based awards

At May 31, 2009, the Company maintained two stockholder-approved employee stock-based compensation plans with regard to the Common Stock: the Scholastic Corporation 1995 Stock Option Plan (the 1995 Plan), under which no further awards can be made; and the Scholastic Corporation 2001 Stock Incentive Plan (the 2001 Plan). The 2001 Plan provides for the issuance of: incentive stock options, which qualify for favorable treatment under the Internal Revenue Code; options that are not so qualified, called non-qualified stock options; restricted stock; and other stock-based awards.

Stock Options At May 31, 2009, non-qualified stock options to purchase 1,377,642 shares of Common Stock and 2,764,571 shares of Common Stock were outstanding under the 1995 Plan and 2001 Plan, respectively. During fiscal 2009, the Company awarded 666,500 options under the 2001 plan at a weighted average exercise price of \$25.98. At May 31, 2009, 1,716,106 shares of Common Stock were available for additional awards under the 2001 Plan.

The Company also maintains the 1997 Outside Directors Stock Option Plan (the 1997 Directors Plan), a stockholder-approved stock option plan for outside directors under which no further awards may be made. The 1997 Directors Plan, as amended, provided for the automatic grant to each non-employee director on the date of each annual stockholders meeting of non-qualified stock options to purchase 6,000 shares of Common Stock.

At May 31, 2009, options to purchase 312,000 shares of Common Stock were outstanding under the 1997 Directors Plan.

In September 2007, the Corporation adopted the Scholastic Corporation 2007 Outside Directors Stock Option Plan (the 2007 Directors Plan). The 2007 Directors Plan provides for the automatic grant to each non-employee director on the date of each annual stockholders meeting of non-qualified stock options to purchase 3,000 shares of Common Stock at a purchase price per share equal to the fair market value of a share of Common Stock on the date of grant and 1,200 restricted stock units. In September 2008, 24,000 options at an exercise price of \$27.93 per share and 9,600 restricted stock units were granted under the 2007 Directors Plan. As of May 31, 2009, 48,000 options and 19,200 restricted stock units were outstanding under the 2007 Directors Plan and 432,800 shares remained available for additional awards under the 2007 Directors Plan.

The Scholastic Corporation 2004 Class A Stock Incentive Plan (the Class A Plan) provides for the grant to Richard Robinson, the Chief Executive Officer of the Corporation as of the effective date of the Class A Plan, of options to purchase Class A Stock (the Class A Options). In fiscal 2009, the Company awarded 250,000 Class A Options to Mr. Robinson at an exercise price of \$27.93 per share. At May 31, 2009, there were 1,499,000 Class A Options outstanding, and no shares of Class A Stock remained available for additional awards, under the Class A Plan.

Generally, options granted under the various plans may not be exercised for a minimum of one year after the date of grant and expire approximately ten years after the date of grant.

The total aggregate intrinsic value of stock options exercised during the year ended May 31, 2009 and 2008 was \$0.0 and \$10.1, respectively. The intrinsic value of these stock options is deductible by the Company for tax purposes. The total compensation cost for share-based payment arrangements recognized in income for fiscal 2009, 2008 and 2007 was \$11.6, \$7.0 and \$3.6, respectively. The total recognized tax benefit related thereto for fiscal 2009, 2008 and 2007 was \$1.9, \$4.2 and \$3.2, respectively.

As of May 31, 2009, the total pre-tax compensation cost not yet recognized by the Company with regard to outstanding unvested stock options was \$14.1. The weighted average period over which this compensation cost is expected to be recognized is 2.6 years.

Edgar Filing: SCHOLASTIC CORP - Form 10-K

The following table sets forth the stock option activity for the Class A Stock and Common Stock plans for the fiscal year ended May 31, 2009:

| | Options | Weighted Average Exercise Price | Weighted Average Remaining Contractual Term (In years) | Aggregate Intrinsic Value |
|--|-----------|--|---|---------------------------------|
| Outstanding at May 31, 2008 | 5,522,288 | \$ 32.58 | | |
| Granted | 940,500 | 25.98 | | |
| Exercised | (16,800) | 24.55 | | |
| Forfeitures | (419,756) | 32.42 | | |
| Outstanding at May 31, 2009 | 6,026,232 | \$ 31.58 | 5.2 | 0.4 |
| Vested and expected to vest at May 31, 2009 | 5,935,396 | 31.65 | 5.2 | 0.4 |
| Exercisable at May 31, 2009 | 4,281,091 | 32.43 | 3.8 | 0.0 |

Restricted Stock Units In addition to stock options, the Company has issued restricted stock units to certain officers and key executives under the 2001 Plan (Stock Units). During fiscal 2009 and 2008, the Company granted 144,322 and 147,940 Stock Units, respectively, with weighted average grant date prices of \$26.62 and \$35.71 per share, respectively. Unless otherwise deferred, the Stock Units automatically convert to shares of Common Stock on a one-for-one basis as the award vests, which is typically over a four-year period beginning thirteen months from the grant date and thereafter annually on the anniversary of the grant date. There were 63,966 shares of Common Stock issued upon conversion of Stock Units during fiscal 2009. The Company measures the value of Stock Units at fair value based on the number of Stock Units granted at the price of the underlying Common Stock on the date of grant. The Company amortizes the fair value of outstanding stock units as stock-based compensation expense over the vesting term on a straight-line basis.

Management Stock Purchase Plan

The Company maintains a Management Stock Purchase Plan (MSPP), which allows certain members of senior management to defer up to 100% of their annual cash bonus payment in the form of restricted stock units (RSUs). The RSUs are purchased by the employee at a 25% discount from the lowest closing price of the Common Stock on NASDAQ during the fiscal quarter in which such bonuses are payable and are converted into shares of Common Stock on a one-for-one basis at the end of the applicable deferral period. During fiscal 2009 and 2008, the Company allocated 57,543 RSUs and 5,787 RSUs, respectively, to participants under the MSPP at a weighted average price of \$18.77 and \$23.49 per RSU, respectively. At May 31, 2009, there were 216,472 shares of Common Stock authorized for issuance under the MSPP. There were 33,786 shares of Common Stock issued upon conversion of RSUs during fiscal 2009. The Company measures the value of RSUs at fair value based on the number of RSUs granted and the price of the underlying Common Stock at the date of grant, giving effect to the 25% discount. The Company amortizes the fair value of RSUs as stock-based compensation expense over the vesting term on a straight-line basis.

The following table sets forth Stock Unit and RSU activity for the year ended May 31, 2009:

| | Stock Units | Weighted Average Grant-Date Fair Value |
|------------------------------|----------------|---|
| Nonvested as of May 31, 2008 | 308,993 | \$ 27.86 |
| Granted | 211,465 | 21.69 |
| Vested | (151,308) | 24.28 |
| Forfeited | (10,048) | 29.17 |
| Nonvested as of May 31, 2009 | 359,102 | \$ 24.44 |

Employee Stock Purchase Plan

The Company maintains an Employee Stock Purchase Plan (the "ESPP"), which is offered to eligible United States employees. The ESPP permits participating employees to purchase Common Stock, with after-tax payroll deductions, on a quarterly basis at a 15% discount from the closing price of the Common Stock on NASDAQ on the last business day of the fiscal quarter. Upon adoption of SFAS No. 123R, the Company began recognizing the fair value of the Common Stock issued under the ESPP as stock-based compensation expense in the quarter in which the employees participated in the plan. During fiscal 2009 and 2008, the Company issued 111,887 shares and 71,680 shares of Common Stock under the ESPP at a weighted average price of \$12.78 and \$28.87 per share, respectively. At May 31, 2009, there were 504,331 shares of Common Stock remaining authorized for issuance under the ESPP. In fiscal 2009, the Board adopted, and the Class A Stockholders approved, an amendment to the ESPP that increased the total number of shares of Common Stock authorized for issuance under the ESPP by 500,000.

10. TREASURY STOCK

On June 1, 2007, the Corporation entered into an agreement with a financial institution to repurchase \$200.0 of its outstanding Common Stock under an Accelerated Share Repurchase Agreement (the "ASR"). The entire \$200.0 repurchase was executed under a collared transaction whereby a price range for the shares was established. Under the ASR, the Corporation initially received 5.1 million shares on June 28, 2007 (the "Initial Execution Date"), representing the minimum number of shares to be received based on a calculation using the cap or high-end of the price range collar. On October 29, 2007 (the "Settlement Date"), the Corporation received an additional 0.7 million shares at no additional cost, bringing the total number of shares repurchased under the ASR to 5.8 million shares, which is reflected in the Treasury Stock component of Stockholders Equity. The total number of shares received under the ASR was determined based on the adjusted volume weighted average price of the Common Stock, as defined in the ASR, during the four month period from the Initial Execution Date through the Settlement Date, which was \$34.64 per share.

On December 20, 2007, the Corporation announced that its Board of Directors had authorized a program to repurchase up to \$20.0 of Common Stock, from time to time as conditions allow, on the open market or through negotiated private transactions. During the five months ended May 31, 2008, the Corporation purchased approximately 0.7 million shares on the open market for approximately \$20.0 at an average cost of \$30.09 per share. On May 28, 2008, the Company announced that its Board of Directors had authorized a new program to repurchase up to \$20.0 of Common Stock as conditions allow, on the open market or through negotiated private transactions. On November 20, 2008 the Board of Directors authorized a further program to repurchase up to an additional \$10.0 of its Common Stock and on February 4, 2009, the Board of Directors authorized an additional program to repurchase up to another \$5.0 of its Common Stock, which will be funded with available cash, pursuant to which the Company may purchase shares, from time to time as conditions allow, on the open market. The repurchase program may be suspended at any time without prior notice. During the twelve months ended May 31, 2009, the Company repurchased approximately 1.9 million shares on the open market for approximately \$34.0 at an average cost of \$17.51 per share. See Part II, Item 5, Market for the Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities.

11. EMPLOYEE BENEFIT PLANS

The Company has a cash balance retirement plan (the "Pension Plan"), which covers the majority of United States employees who meet certain eligibility requirements. The Company funds all of the contributions for the Pension Plan. Benefits generally are based on the Company's contributions and interest credits allocated to participants' accounts based on years of benefit service and annual pensionable earnings. It is the Company's policy to fund the minimum amount required by the Employee Retirement Income Security Act of 1974, as amended.

Effective June 1, 2009, the Company modified the plan, such that no further benefits will accrue to employees under the Pension Plan. Accordingly, the Company recognized a curtailment loss of \$0.5 associated with this action in fiscal 2009. This action was taken by the Company as a cost reduction program.

Scholastic Ltd., an indirect subsidiary of Scholastic Corporation located in the United Kingdom, has a defined benefit pension plan (the UK Pension Plan) that covers its employees who meet various eligibility requirements. Benefits are based on years of service and on a percentage of compensation near retirement. The UK Pension Plan is funded by contributions from Scholastic Ltd. and its employees.

Effective as of June 1, 2007, the UK Pension Plan was amended so that no further benefits will accrue to eligible employees under the existing defined benefit scheme. Affected employees were offered the choice to join either an existing Group Personal Pension Plan (the GPPP) or a newly established defined contribution scheme. Based upon the employee s selection, Scholastic Ltd. will (1) make a contribution to the GPPP that will vary based upon the contribution made by an eligible participant, or (2) make a fixed contribution to the newly established defined contribution scheme, provided the employee makes the minimum required contribution.

Grolier Ltd., an indirect subsidiary of Scholastic Corporation located in Canada, provides a defined benefit pension plan (the Grolier Canada Pension Plan) that covers its employees who meet certain eligibility requirements. All full-time employees are eligible to participate in the plan after two years of employment. Employees are not required to contribute to the fund.

The Company s pension plans have a measurement date of May 31, 2009.

Post-Retirement Benefits

The Company provides post-retirement benefits to retired United States-based employees (the Post-Retirement Benefits) consisting of certain healthcare and life insurance benefits. Employees may become eligible for these benefits after completing certain minimum age and service requirements. At May 31, 2009, the unrecognized prior service credit remaining was \$2.8.

Effective June 1, 2009, the Company modified the terms of the Post-Retirement Benefits, effectively excluding a large percentage of employees from the plan. Accordingly, the Company recognized a \$3.0 curtailment gain associated with this action in fiscal 2009, resulting from recognition of an unamortized prior service credit. This action was taken by the Company as a cost reduction program.

The Medicare Prescription Drug, Improvement and Modernization Act (the Medicare Act) introduced a prescription drug benefit under Medicare (Medicare Part D) as well as a Federal subsidy of 28% to sponsors of retiree health care benefit plans providing a benefit that is at least actuarially equivalent to Medicare Part D. In response to the Medicare Act, the FASB issued Staff Position 106-2, Accounting and Disclosure Requirements Related to the Medicare Prescription Drug, Improvement and Modernization Act of 2003, to provide additional disclosure and guidance in implementing the federal subsidy provided by the Medicare Act. Based on this guidance, the Company has determined that the Post-Retirement Benefits provided to the retiree population are in aggregate the actuarial equivalent of the benefits under Medicare. As a result, in fiscal 2009, 2008 and 2007, the Company recognized a cumulative reduction of its accumulated post-retirement benefit obligation of \$9.4, \$10.5 and \$10.2, respectively, due to the federal subsidy under the Medicare Act.

Edgar Filing: SCHOLASTIC CORP - Form 10-K

The following table sets forth the weighted average actuarial assumptions utilized to determine the benefit obligations for the Pension Plan, the UK Pension Plan and the Grolier Canada Pension Plan (collectively the Pension Plans), including the Post-Retirement Benefits, at May 31:

| | Pension Plans | | Post-Retirement Benefits | |
|---|---------------|------|--------------------------|------|
| | 2009 | 2008 | 2009 | 2008 |
| Weighted average assumptions used to determine benefit obligations: | | | | |
| Discount rate | 6.5% | 6.5% | 6.7% | 6.6% |
| Rate of compensation increase | 3.6% | 3.6% | | |
| Weighted average assumptions used to determine net periodic benefit cost: | | | | |
| Discount rate | 6.5% | 5.8% | 6.6% | 6.0% |
| Expected long-term return on plan assets | 8.5% | 8.5% | | |
| Rate of compensation increase | 3.6% | 3.6% | | |

To develop the expected long-term rate of return on assets assumption for the Pension Plans, the Company, with the assistance of its actuaries, considers historical returns and future expectations. Over the 15 year period ended May 31, 2009, the returns on the portfolio, assuming it was invested at the current target asset allocation in the prior periods, would have been a compounded annual average of 8.5%. Considering this information and the potential for lower future returns due to a generally lower interest rate environment, the Company selected an assumed weighted average long-term rate of return of 8.5% for all of the Pension Plans. The following table sets forth the change in benefit obligation for the Pension Plans and Post-Retirement Benefits at May 31:

| | Pension Plans | | Post-Retirement Benefits | |
|--|-----------------|-----------------|--------------------------|----------------|
| | 2009 | 2008 | 2009 | 2008 |
| Change in benefit obligation: | | | | |
| Benefit obligation at beginning of year | \$ 173.6 | \$ 172.9 | \$ 31.6 | \$ 33.1 |
| Service cost | 7.7 | 8.1 | 0.1 | 0.2 |
| Interest cost | 10.5 | 10.2 | 1.5 | 1.9 |
| Plan participants contributions | | 0.1 | 0.3 | 0.3 |
| Plan amendments | | 1.4 | | |
| Curtailment gain | (5.9) | | (0.5) | |
| Special termination benefits | 0.7 | | | |
| Actuarial gains | (5.3) | (10.1) | (7.0) | (1.9) |
| Foreign currency exchange rate changes | (6.0) | 2.1 | | |
| Benefits paid | (21.4) | (11.1) | (2.7) | (2.0) |
| Benefit obligation at end of year | \$ 153.9 | \$ 173.6 | \$ 23.3 | \$ 31.6 |

Edgar Filing: SCHOLASTIC CORP - Form 10-K

The following table sets forth the change in plan assets for the Pension Plans and Post-Retirement Benefits at May 31:

| | Pension Plans | | Post-Retirement Benefits | |
|---|-----------------|-----------------|--------------------------|-----------------|
| | 2009 | 2008 | 2009 | 2008 |
| Change in plan assets: | | | | |
| Fair value of plan assets at beginning of year | \$ 144.0 | \$ 140.7 | \$ | \$ |
| Actual return on plan assets | (25.7) | (0.4) | | |
| Employer contributions | 13.6 | 13.4 | 2.4 | 1.7 |
| Benefits paid, including expenses | (21.6) | (11.8) | (2.7) | (2.0) |
| Measurement change and other adjustments | 0.1 | | | |
| Plan participants' contributions | | 0.1 | 0.3 | 0.3 |
| Retiree Medicare drug subsidy | | | | |
| Cumulative translation adjustments | (5.1) | 2.0 | | |
| Fair value of plan assets at end of year | \$ 105.3 | \$ 144.0 | \$ (0.0) | \$ (0.0) |

The following table sets forth the funded status of the Pension Plans and Post-Retirement Benefits and the related amounts recognized on the Company's Consolidated Balance Sheets at May 31:

| Amounts recognized in the Consolidated Balance Sheet | Pension Plans | | Post-Retirement Benefits | |
|--|------------------|------------------|--------------------------|------------------|
| | 2009 | 2008 | 2009 | 2008 |
| Current assets | \$ | \$ 0.6 | \$ | \$ |
| Current liabilities | | | (2.7) | (3.3) |
| Non-current liabilities | (48.6) | (30.3) | (20.6) | (28.3) |
| Net amounts recognized | \$ (48.6) | \$ (29.7) | \$ (23.3) | \$ (31.6) |

The following amounts were recognized in Accumulated other comprehensive loss for the Pension Plans and Post-Retirement Benefits in the Company's Consolidated Balance Sheets at May 31:

| | 2009 | | | 2008 | | |
|--|------------------|--------------------------|------------------|------------------|--------------------------|------------------|
| | Pension Plans | Post-Retirement Benefits | Total | Pension Plans | Post-Retirement Benefits | Total |
| Net actuarial loss | \$ (61.3) | \$ (8.4) | \$ (69.7) | \$ (39.0) | \$ (16.5) | \$ (55.5) |
| Net prior service credit (cost) | | 2.8 | 2.8 | (0.4) | 6.7 | 6.3 |
| Net amount recognized in accumulated other comprehensive loss | \$ (61.3) | \$ (5.6) | \$ (66.9) | \$ (39.4) | \$ (9.8) | \$ (49.2) |

Edgar Filing: SCHOLASTIC CORP - Form 10-K

The estimated net loss and prior service cost for the Pension Plans that will be amortized from Accumulated other comprehensive loss into net periodic benefit cost over the Company's fiscal year ending May 31, 2010 are \$4.0 and \$0.0, respectively. The estimated net loss and prior service credit for the Post-Retirement Benefits that will be amortized from Accumulated other comprehensive loss into net periodic benefit cost over the fiscal year ending May 31, 2010 are \$0.6 and \$0.7, respectively.

The accumulated benefit obligation for the Pension Plans was \$152.8 and \$165.8 at May 31, 2009 and 2008, respectively. The following table sets forth information with respect to the Pension Plans with accumulated benefit obligations in excess of plan assets for the fiscal years ended May 31:

| | 2009 | 2008 |
|---------------------------------|----------|----------|
| Projected benefit obligations | \$ 153.9 | \$ 165.9 |
| Accumulated benefit obligations | 152.8 | 158.4 |
| Fair value of plan assets | 105.3 | 135.6 |

The following table sets forth the net periodic cost for the Pension Plans and Post-Retirement Benefits for the fiscal years ended May 31:

| | Pension Plans | | | Post-Retirement Benefits | | |
|--|---------------|---------------|----------------|--------------------------|---------------|---------------|
| | 2009 | 2008 | 2007 | 2009 | 2008 | 2007 |
| Components of net periodic benefit cost: | | | | | | |
| Service cost | \$ 7.8 | \$ 8.2 | \$ 8.1 | \$ 0.1 | \$ 0.2 | \$ 0.2 |
| Interest cost | 10.5 | 10.2 | 9.3 | 1.5 | 1.9 | 1.9 |
| Expected return on assets | (11.5) | (11.9) | (9.6) | | | |
| Net amortization and deferrals | (0.1) | (0.1) | (0.2) | (0.8) | (0.9) | (0.8) |
| Curtailment loss (gain) | 0.5 | | | (3.0) | | |
| Special termination benefits | 0.7 | | | | | |
| Recognized net actuarial loss | 1.9 | 2.0 | 2.8 | 0.6 | 1.4 | 1.5 |
| Net periodic cost (benefit) | \$ 9.8 | \$ 8.4 | \$ 10.4 | \$ (1.6) | \$ 2.6 | \$ 2.8 |

Plan Assets

The Company's investment policy with regard to the assets in the Pension Plans is to actively manage, within acceptable risk parameters, certain asset classes where the potential exists to outperform the broader market.

The following table sets forth the total weighted average asset allocations for the Pension Plans by asset category at May 31:

| | 2009 | 2008 |
|-----------------------------------|---------------|---------------|
| Small cap equities | 10.8% | 11.5% |
| International equities | 13.7 | 13.0 |
| Index fund equities | 37.1 | 40.9 |
| Bonds and fixed interest products | 37.4 | 30.6 |
| Real estate | 0.8 | 1.0 |
| Other | 0.2 | 3.0 |
| | 100.0% | 100.0% |

The following table sets forth the weighted average target asset allocations for the Pension Plans included in the Company's investment policy:

| | Pension Plan | U.K. Pension Plan | Grolier Canada Pension |
|--|-----------------|-------------------------|------------------------------|
| | | | |

Edgar Filing: SCHOLASTIC CORP - Form 10-K

| | | | Plan |
|---------------------------|---------------|---------------|---------------|
| Equity | 70% | 68% | 35% |
| Debt and cash equivalents | 30 | 24 | 65 |
| Real estate | | 8 | |
| | 100.0% | 100.0% | 100.0% |

Contributions

In fiscal 2010, the Company expects to contribute \$13.7 to the Pension Plan.

Estimated future benefit payments

The following table sets forth the expected future benefit payments under the Pension Plans and the Post-Retirement Benefits by fiscal year:

| | Post-Retirement | | |
|-----------|------------------|------------------|---------------------------|
| | Pension Benefits | Benefit Payments | Medicare Subsidy Receipts |
| 2010 | \$ 11.8 | \$ 2.7 | \$ 0.3 |
| 2011 | 16.4 | 2.7 | 0.4 |
| 2012 | 11.1 | 2.7 | 0.4 |
| 2013 | 10.7 | 2.7 | 0.4 |
| 2014 | 10.9 | 2.7 | 0.4 |
| 2015-2019 | 55.2 | 12.9 | 2.2 |

Assumed health care cost trend rates at May 31:

| | 2009 | 2008 |
|--|------|------|
| Health care cost trend rate assumed for the next fiscal year | 7.5% | 7.0% |
| Rate to which the cost trend is assumed to decline (the ultimate trend rate) | 5.0% | 5.0% |
| Year that the rate reaches the ultimate trend rate | 2017 | 2013 |

Assumed health care cost trend rates could have a significant effect on the amounts reported for the post-retirement health care plan. A one percentage point change in assumed health care cost trend rates would have the following effects:

| | 2009 | 2008 |
|------------------------------------|--------|--------|
| Total service and interest cost | \$ 0.2 | \$ 0.2 |
| Post-retirement benefit obligation | 2.7 | 2.6 |

Defined contribution plans

The Company also provides defined contribution plans for certain eligible employees. In the United States, the Company sponsors a 401(k) retirement plan and has contributed \$7.1, \$6.9 and \$6.3 for fiscal 2009, 2008 and 2007, respectively.

12. ACCRUED SEVERANCE

During fiscal 2009, the Company initiated certain cost reduction measures, including a previously announced Voluntary Retirement Program and a workforce reduction program. The table set forth below provides information regarding severance costs appearing on the Company's Consolidated Statements of Operations associated with these cost reduction measures. The severance accrual of \$3.4 and \$0.4 as of May 31, 2009 and 2008, respectively, is included in Other accrued expenses on the Company's Consolidated Balance Sheets.

| | 2009 | | 2008 | |
|-----------------------|-----------|------------|-----------|------------|
| Beginning balance | \$ | 0.4 | \$ | 4.2 |
| Accruals | | 23.9 | | 1.3 |
| Payments | | (20.9) | | (5.1) |
| Ending balance | \$ | 3.4 | \$ | 0.4 |

13. EARNINGS PER SHARE

The following table sets forth the computation of the dilutive effect of stock-based compensation plans on earnings per share for the fiscal years ended May 31:

| | 2009 | | 2008 | | 2007 | |
|---|------|--------|------|---------|------|--------|
| Earnings from continuing operations | \$ | 13.2 | \$ | 117.3 | \$ | 82.7 |
| Loss from discontinued operations, net of tax | | (27.5) | | (134.5) | | (21.8) |
| Net (loss) income | | (14.3) | | (17.2) | | 60.9 |
| Weighted average Shares of Class A Stock and Common Stock outstanding for basic earnings per share (in millions) | | 37.2 | | 38.7 | | 42.5 |
| Dilutive effect of Class A Stock and Common Stock potentially issuable pursuant to stock-based compensation plans (in millions) | | 0.2 | | 0.5 | | 0.5 |
| Adjusted weighted average Shares of Class A Stock and Common Stock outstanding for diluted earnings per share (in millions) | | 37.4 | | 39.2 | | 43.0 |

See Note 10, Treasury Stock.

14. ACCRUED EXPENSES

Accrued expenses consist of the following at May 31:

| | 2009 | | 2008 | |
|---|-----------|--------------|-----------|--------------|
| Accrued payroll, payroll taxes and benefits | \$ | 57.5 | \$ | 64.5 |
| Accrued other taxes | | 19.3 | | 17.6 |
| Accrued commissions | | 8.7 | | 12.4 |
| Accrued advertising and promotions | | 19.6 | | 16.1 |
| Other accrued expenses | | 33.8 | | 60.4 |
| Total accrued expenses | \$ | 138.9 | \$ | 171.0 |

15. OTHER INCOME

Other income, net for fiscal 2009 was \$0.7 consisting of a gain of \$0.4 related to the 5% note repurchase and a gain of \$0.3 related to an accelerated payment of a note. Other income, net for fiscal 2008 was \$2.6 consisting of \$1.4 related to a currency gain on settlement of a loan and income of \$2.1 related to a note repurchase, partially offset by a \$0.9 expense resulting from the early termination of a lease.

16. OTHER FINANCIAL DATA

Advertising, expensed as incurred, was \$137.6, \$142.8 and \$133.0 for the fiscal years ended May 31, 2009, 2008 and 2007, respectively.

Prepublication costs were \$121.5 and \$110.6 at May 31, 2009 and 2008, respectively. The Company amortized \$41.1, \$42.3 and \$48.0 of capitalized prepublication costs for the fiscal years ended May 31, 2009, 2008 and 2007, respectively.

Other accrued expenses include a reserve for unredeemed credits issued in conjunction with the Company's school-based book club and book fair operations of \$11.0 and \$11.5 at May 31, 2009 and 2008, respectively.

The components of Accumulated other comprehensive loss at May 31, 2009 and 2008 include \$30.9 and \$0.4, respectively, of foreign currency translation and \$66.9 (\$46.3 net of tax) and \$34.2 (\$21.2 net of tax), respectively, of pension obligation in accordance with SFAS 158.

17. RELATED PARTY TRANSACTIONS

On October 10, 2008, the Company agreed to purchase 100,000 shares of Common Stock from Richard Robinson, Chairman of the Board, President and Chief Executive Officer of the Company, at a price of \$20.59 per share, or an aggregate purchase price of \$2.1, pursuant to the Company's previously announced stock repurchase program which had been approved by the Board in May 2008. The purchase price was determined with reference to the last transaction price reported on NASDAQ immediately prior to the purchase. The closing price of the Common Stock on NASDAQ on October 10, 2008 was \$23.11 per share. The shares became available for sale due to Mr. Robinson, as a result of current market conditions, being required to sell the shares in order to protect the collateral value underlying a personal loan with a bank secured by the shares. The aforementioned transaction was approved by the Audit Committee and ratified by the Board.

18. SUBSEQUENT EVENTS

On June 29, 2009, the Company repurchased \$5.0 of the 5% Senior Notes due 2013 for \$4.1.

On June 30, 2009, the Company entered into an agreement to dissolve a 50% owned joint venture in the UK.

On July 22, 2009, the Company announced that the Board had declared a quarterly dividend of \$0.075 per share to be paid on September 15, 2009, to shareholders of record of the Corporation's Common Stock and Class A Stock on August 31, 2009.

**Report of Independent Registered Public Accounting Firm
THE BOARD OF DIRECTORS AND STOCKHOLDERS
OF SCHOLASTIC CORPORATION**

We have audited the accompanying consolidated balance sheets of Scholastic Corporation and subsidiaries as of May 31, 2009 and 2008, and the related consolidated statements of operations, changes in stockholders' equity and comprehensive income (loss), and cash flows for each of the three years in the period ended May 31, 2009. Our audit also included the financial statement schedule included in the Index at Item 15(a). These financial statements and schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and schedule based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Scholastic Corporation and subsidiaries at May 31, 2009 and 2008, and the consolidated results of their operations and their cash flows for each of the three years in the period ended May 31, 2009, in conformity with U.S. generally accepted accounting principles. Also, in our opinion the audited financial statements schedule, when considered in relation to the basic financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

As discussed in Note 8 to the Consolidated Financial Statements, Scholastic Corporation adopted Financial Accounting Standards Board Interpretation No. 48, Accounting for Uncertainty in Income Taxes, effective June 1, 2007.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Scholastic Corporation's internal control over financial reporting as of May 31, 2009, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated July 30, 2009 expressed an unqualified opinion thereon.

New York, New York
July 30, 2009

**Report of Independent Registered Public Accounting Firm
THE BOARD OF DIRECTORS AND STOCKHOLDERS
OF SCHOLASTIC CORPORATION**

We have audited Scholastic Corporation's internal control over financial reporting as of May 31, 2009, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO criteria). Scholastic Corporation's management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management's Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, Scholastic Corporation maintained, in all material respects, effective internal control over financial reporting as of May 31, 2009, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Scholastic Corporation and subsidiaries as of May 31, 2009 and 2008 and the related consolidated statements of operations, changes in stockholders' equity and comprehensive income (loss), and cash flows for each of the three years in the period ended May 31, 2009 and our report dated July 30, 2009 expressed an unqualified opinion thereon.

New York, New York
July 30, 2009

Supplementary Financial Information

Summary of Quarterly Results of Operations

(Unaudited, amounts in millions except per share data)

| | First Quarter | Second Quarter | Third Quarter | Fourth Quarter | Fiscal Year Ended May 31, |
|---|------------------|-------------------|------------------|-------------------|------------------------------------|
| 2009 | | | | | |
| Revenues | \$ 276.4 | \$ 653.3 | \$ 423.6 | \$ 496.0 | \$ 1,849.3 |
| Cost of goods sold | 146.0 | 281.2 | 213.3 | 228.3 | 868.8 |
| (Loss) earnings from continuing operations | (42.7) | 58.6 | (34.9) | 32.2 | 13.2 |
| Loss from discontinued operations, net of tax | (6.4) | (15.5) | (1.1) | (4.5) | (27.5) |
| Net (loss) income | (49.1) | 43.1 | (36.0) | 27.7 | (14.3) |
| (Loss) earnings per share of Class A and Common Stock: | | | | | |
| Basic: | | | | | |
| (Loss) earnings from continuing operations | (1.13) | 1.56 | (0.94) | 0.88 | 0.35 |
| Loss from discontinued operations | (0.17) | (0.41) | (0.04) | (0.12) | (0.74) |
| Net (loss) income | (1.30) | 1.15 | (0.98) | 0.76 | (0.39) |
| Diluted: | | | | | |
| (Loss) earnings from continuing operations | (1.13) | 1.56 | (0.94) | 0.88 | 0.35 |
| Loss from discontinued operations | (0.17) | (0.41) | (0.04) | (0.12) | (0.73) |
| Net (loss) income | (1.30) | 1.15 | (0.98) | 0.76 | (0.38) |
| 2008 | | | | | |
| Revenues | \$ 520.1 | \$ 676.9 | \$ 437.7 | \$ 524.4 | \$ 2,159.1 |
| Cost of goods sold | 294.4 | 287.0 | 214.9 | 239.6 | 1,035.9 |
| Earnings (loss) from continuing operations | 4.9 | 82.5 | (1.4) | 31.3 | 117.3 |
| Loss from discontinued operations, net of tax | (7.7) | (6.9) | (77.9) | (42.0) | (134.5) |
| Net (loss) income | (2.8) | 75.6 | (79.3) | (10.7) | (17.2) |
| Earnings (loss) per share of Class A and Common Stock: | | | | | |
| Basic: | | | | | |
| Earnings (loss) from continuing operations | 0.12 | 2.14 | (0.04) | 0.82 | 3.03 |
| Loss from discontinued operations | (0.19) | (0.18) | (2.02) | (1.10) | (3.47) |
| Net (loss) income | (0.07) | 1.96 | (2.06) | (0.28) | (0.44) |
| Diluted: | | | | | |
| Earnings (loss) from continuing operations | 0.12 | 2.11 | (0.04) | 0.81 | 2.99 |
| Loss from discontinued operations | (0.19) | (0.18) | (2.02) | (1.09) | (3.43) |
| Net (loss) income | (0.07) | 1.93 | (2.06) | (0.28) | (0.44) |

Item 9 | Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

None.

Item 9A | Controls and Procedures

Evaluation of Disclosure Controls and Procedures

The Chief Executive Officer and 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 May 31, 2009, 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 (the Exchange Act) 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 Corporation's management, including the Chief Executive Officer and Chief Financial Officer, to allow timely decisions regarding required disclosure.

Remediation of Material Weakness from Prior Year

As previously reported in the Corporation's Annual Report on Form 10-K/A for the fiscal year ended May 31, 2008, the Corporation restated its historical financial statements as a result of a reassessment of its accounting regarding goodwill impairment for its United States Direct to Home continuity business (the DTH business), which is now reflected as a discontinued operation. Upon the initial decision to dispose of the DTH business and treat such DTH business as a discontinued operation, the Corporation continued its impairment testing of the DTH business at the reporting unit level of its Children's Book Publishing and Distribution segment. Subsequently, at the time the Corporation was preparing its financial statements for the fiscal year ended May 31, 2008, the Corporation reassessed the reporting unit level at which such impairment testing should have been conducted and determined that such testing should more properly have been conducted at the lower reporting unit level of the DTH business itself, which resulted in the Restatement. As a result of this Restatement, management ultimately concluded that the Corporation's internal controls were not effective as of May 31, 2008 due to the existence of a material weakness related to the Corporation's internal control over financial reporting with respect to its goodwill impairment testing within the Corporation's financial statement close process.

The Corporation initiated a number of changes in its internal controls to remediate this material weakness. As of May 31, 2009, the following measures to remediate the control deficiency have been implemented:

The Corporation ensured that annual control procedures regarding the Corporation's identification of operating segments in accordance with SFAS 131, Disclosures about Segments of an Enterprise and Related Information, which is a precursor to the identification of reporting units, were adequate for purposes of applying SFAS 142, Goodwill and Other Intangible Assets.

The Corporation implemented annual control procedures to clearly identify components of an operating segment. A component of an operating segment is defined as an operating segment or one level below an operating segment that is reviewed by segment management and has discrete financial information.

The Corporation implemented annual control procedures to apply the aggregation criteria as defined in SFAS 142, EITF Topic D-101, Clarification of Reporting Unit Guidance in Paragraph 30 of FASB Statement No.

142 and SFAS 131. These new annual procedures include consideration of quantitative and qualitative information in determining if components of an operating segment have similar economic characteristics.

The Corporation undertook an extensive review of its existing goodwill impairment testing procedures, including a detailed analysis of its valuation of reporting units in accordance with SFAS 142, and, as a result, built and documented additional control procedures for its goodwill impairment testing process. The Corporation ensured that individuals preparing the valuation analysis possessed sufficient expertise, experience and professional resources, including the engagement of subject matter consultants, to thoroughly assess the fair value the Corporation's reporting units.

The Corporation tested its new procedures and controls in relation to testing for goodwill impairment and financial reporting relating thereto extensively prior to the end of May 31, 2009.

Based upon the implementation of these additional controls and procedures and the subsequent testing of those internal controls for a sufficient period of time, management has concluded that the previously reported material weakness related to the level within a segment at which goodwill impairment testing is to be performed has been remediated.

Management's Report on Internal Control Over Financial Reporting

The management of the Corporation is responsible for establishing and maintaining adequate internal control over financial reporting for the Corporation. A corporation's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate. The Corporation's Chief Executive Officer and Chief Financial Officer, after conducting an evaluation, together with other members of the Company's management, of the effectiveness of the Corporation's internal control over financial reporting based on the framework in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission, concluded that the Corporation's internal control over financial reporting was effective as of May 31, 2009.

Ernst & Young LLP, an independent registered public accounting firm, has issued an attestation report on the Corporation's internal control over financial reporting as of May 31, 2009, which is included herein. Apart from the changes involved in the remediation discussed above, there was no other change in the Corporation's internal control over financial reporting that occurred during the quarter ended May 31, 2009 that materially affected, or is reasonably likely to materially affect, the Corporation's internal control over financial reporting.

Item 9A (T) | Control and Procedures

Not Applicable

Item 9B | Other Information

None.

Part III

Item 10 | Directors, Executive Officers and Corporate Governance

Information required by this item is incorporated herein by reference from the Corporation's definitive proxy statement for the Annual Meeting of Stockholders to be held September 23, 2009 to be filed with the SEC pursuant to Regulation 14A under the Exchange Act. Certain information regarding the Corporation's Executive Officers is set forth in Part I - Item 1 - Business.

Item 11 | Executive Compensation

Incorporated herein by reference from the Corporation's definitive proxy statement for the Annual Meeting of Stockholders to be held September 23, 2009 to be filed pursuant to Regulation 14A under the Exchange Act.

Item 12 | Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

Incorporated herein by reference from the Corporation's definitive proxy statement for the Annual Meeting of Stockholders to be held September 23, 2009 to be filed pursuant to Regulation 14A under the Exchange Act.

Item 13 | Certain Relationships and Related Transactions, and Director Independence

Incorporated herein by reference from the Corporation's definitive proxy statement for the Annual Meeting of Stockholders to be held September 23, 2009 to be filed pursuant to Regulation 14A under the Exchange Act.

Item 14 | Principal Accounting Fees and Services

Incorporated herein by reference from the Corporation's definitive proxy statement for the Annual Meeting of Stockholders to be held September 23, 2009 to be filed pursuant to Regulation 14A under the Exchange Act.

Part IV

Item 15 | Exhibits, Financial Statement Schedules

(a)(1) Financial Statements:

The following consolidated financial statements are included in Part II, Item 8, Consolidated Financial Statements and Supplementary Data :

Consolidated Statements of Operations for the years ended May 31, 2009, 2008 and 2007

Consolidated Balance Sheets at May 31, 2009 and 2008

Consolidated Statements of Changes in Stockholders' Equity and Comprehensive Income (Loss) for the years ended May 31, 2009, 2008 and 2007

Consolidated Statements of Cash Flows for the years ended May 31, 2009, 2008 and 2007

Notes to Consolidated Financial Statements

(a)(2) Supplementary Financial Information - Summary of Quarterly Results of Operations Financial Statement Schedule:

and (c)

The following consolidated financial statement schedule is included with this report: Schedule II-Valuation and Qualifying Accounts and Reserves.

All other schedules have been omitted since the required information is not present or is not present in amounts sufficient to require submission of the schedule, or because the information required is included in the Consolidated Financial Statements or the Notes thereto.

(a)(3) and (b)

Exhibits:

- 3.1 Amended and Restated Certificate of Incorporation of the Corporation, as amended to date (incorporated by reference to the Corporation's Quarterly Report on Form 10-Q as filed with the SEC on October 5, 2006, SEC File No. 000-19860 (the August 31, 2006 10-Q)).
- 3.2 Bylaws of the Corporation, amended and restated as of December 12, 2007 (incorporated by reference to the Corporation's Current Report on Form 8-K as filed with the SEC on December 14, 2007, SEC File No. 000-19860).
- 4.1 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 (incorporated by reference to the Corporation's Annual Report on Form 10-K as filed with the SEC on July 30, 2007, SEC File No. 000-19860 (the 2007 10-K)).
- 4.2* Indenture dated April 4, 2003 for 5% Notes due 2013 issued by the Corporation.

- 10.1** Scholastic Corporation 1995 Stock Option Plan, effective as of September 21, 1995 (incorporated by reference to the Corporation's Registration Statement on Form S-8 (Registration No. 33-98186), as filed with the SEC on October 16, 1995), together with Amendment No. 1, effective September 16, 1998 (incorporated by reference to the Corporation's Quarterly Report on Form 10-Q as filed with the SEC on October 15, 1998, SEC File No. 000-19860), Amendment No. 2, effective as of July 18, 2001 (incorporated by reference to the Corporation's Annual Report on Form 10-K as filed with the SEC on August 24, 2001, SEC File No. 000-19860), Amendment No. 3, effective as of May 25, 2006 (incorporated by reference to the Corporation's Annual Report on Form 10-K as filed with the SEC on August 9, 2006, SEC File No. 000-19860 (the 2006 10-K)), Amendment No. 4, dated as of March 21, 2007 (incorporated by reference to the Corporation's Quarterly Report on Form 10-Q as filed with the SEC on March 30, 2007, SEC File No. 000-19860 (the February 28, 2007 10-Q)) and Amendment No. 5, dated as of May 20, 2008, (incorporated by reference to the Corporation's Annual Report on Form 10-K as filed with the SEC on July 30, 2008, SEC File No. 000-19860 (the 2008 10-K)).
- 10.2** Scholastic Corporation Management Stock Purchase Plan, amended and restated effective as of September 23, 2008.
- 10.3** Scholastic Corporation 1997 Outside Directors' Stock Option Plan, amended and restated as of May 25, 1999 (incorporated by reference to the Corporation's Annual Report on Form 10-K as filed with the SEC on August 23, 1999, SEC File No. 000-19860 (the 1999 10-K)), together with Amendment No. 1, dated September 20, 2001 (incorporated by reference to the Corporation's Quarterly Report on Form 10-Q as filed with the SEC on January 14, 2002, SEC File No. 000-19860), Amendment No. 2, effective as of September 23, 2003 (incorporated by reference to Appendix B to the Corporation's definitive Proxy Statement as filed with the SEC on August 19, 2003), and Amendment No. 3, effective as of May 25, 2006 (incorporated by reference to the 2006 10-K).
- 10.4** Scholastic Corporation Director's Deferred Compensation Plan, amended and restated effective effective as of September 23, 2008.
- 10.5** Scholastic Corporation 2007 Outside Directors Stock Incentive Plan (the 2007 Directors' Plan) effective as of September 23, 2008.
- 10.6** Form of Stock Option Agreement under the 2007 Directors' Plan (incorporated by reference to the Corporation's Quarterly Report on Form 10-Q as filed with the SEC on January 9, 2008, SEC File No. 000-19860 (the November 30, 2007 10-Q)).
- 10.7** Form of Restricted Stock Unit Agreement under the 2007 Directors' Plan effective as of September 23, 2008.
- 10.8** Scholastic Corporation Executive Performance Incentive Plan, effective as of May 21, 2008 (incorporated by reference to Appendix B to the Corporation's definitive Proxy Statement as filed with the SEC on August 11, 2008).
- 10.9** Scholastic Corporation 2001 Stock Incentive Plan (the 2001 Plan) amended and restated as of September 23, 2008 together with Amendment No. 1 thereto dated July 21, 2009.
- 10.10** Form of Restricted Stock Unit Agreement under the 2001 Plan effective as of July 21, 2009.
- 10.11** Amended and Restated Guidelines for Stock Units granted under the 2001 Plan effective as of July 21, 2009.
- 10.12** Form of Stock Option Agreement under the 2001 Plan effective as of July 21, 2009.

- 10.13** Scholastic Corporation 2004 Class A Stock Incentive Plan (the Class A Plan) (incorporated by reference to Appendix A to the Corporation's definitive Proxy Statement as filed with the SEC on August 2, 2004), Amendment No. 1, effective as of May 25, 2006 (incorporated by reference to the 2006 10-K), Amendment No. 2, dated July 18, 2006 (incorporated by reference to Appendix C to the Corporation's definitive Proxy Statement as filed with the SEC on August 1, 2006), and Amendment No. 3, dated as of March 20, 2007 (incorporated by reference to the February 28, 2007 10-Q).
- 10.14** Form of Class A Option Agreement under the Class A Plan (incorporated by reference to the Corporation's Annual Report on Form 10-K as filed with the SEC on August 8, 2005, SEC File No. 000-19860).
- 10.15** Agreement between Lisa Holton and Scholastic Inc., dated October 5, 2007, with regard to certain severance agreements (incorporated by reference to the November 30, 2007 10-Q).
- 10.16** Agreement between Maureen O'Connell and Scholastic Inc., dated February 12, 2007, regarding employment (incorporated by reference to the February 28, 2007 10-Q).
- 10.17 Amended and Restated Lease, effective as of August 1, 1999, between ISE 555 Broadway, LLC, and Scholastic Inc., tenant, for the building known as 555 Broadway, NY, NY (incorporated by reference to the 1999 10-K).
- 10.18 Amended and Restated Sublease, effective as of October 9, 1996, between Kalodop Corp. and Scholastic Inc., as subtenant, for the premises known as 557 Broadway, NY, NY (incorporated by reference to the 1999 10-K).
- 10.19** Agreement between Devereux Chatillon and Scholastic Inc., dated November 30, 2008, with regard to certain severance arrangements.
- 21 Subsidiaries of the Corporation.
- 23 Consent of Ernst & Young LLP.
- 31.1 Certification of the Chief Executive Officer of the Corporation filed pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 31.2 Certification of the Chief Financial Officer of the Corporation filed pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 32 Certifications of the Chief Executive Officer and the Chief Financial Officer of the Corporation filed pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

* Such long-term debt does not individually amount to more than 10% of the total assets of the Corporation and its subsidiaries on a consolidated basis. Accordingly, pursuant to Item 601(b)(4)(iii) of Regulation S-K, such instrument is not filed herewith. The Corporation hereby agrees to furnish a copy of any such instrument to the SEC upon request.

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

Signatures

Pursuant to the requirements of Section 13 or 15(d) 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.

Dated: July 30, 2009

SCHOLASTIC CORPORATION

By: /s/ Richard Robinson

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

Power of Attorney

KNOW ALL MEN BY THESE PRESENTS, that each person whose signature appears below constitutes and appoints Richard Robinson his or her true and lawful attorney-in-fact and agent, with power of substitution and resubstitution, for him or her and in his or her name, place and stead, in any and all capacities, to sign any and all amendments to this Annual Report on Form 10-K, and to file the same, with all exhibits thereto, and other documents in connection therewith, with the Securities and Exchange Commission, granting unto said attorney-in-fact and agent full power and authority to do and perform each and every act and thing necessary and requisite to be done, as fully and to all the intents and purposes as he might or could do in person, hereby ratifying and confirming all that said attorney-in-fact and agent may lawfully do or cause to be done by virtue hereof.

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

| Signature | Title | Date |
|---|---|---------------|
| <u>/s/ Richard Robinson</u> Richard Robinson | Chairman of the Board, President and Chief Executive Officer and Director (principal executive officer) | July 30, 2009 |
| <u>/s/ Maureen O Connell</u> Maureen O Connell | Executive Vice President, Chief Administrative Officer and Chief Financial Officer (principal financial officer) | July 30, 2009 |
| <u>/s/ Robert J. Jackson</u> Robert J. Jackson | Senior Vice President, Chief Accounting Officer (principal accounting officer) | July 30, 2009 |
| <u>/s/ James W. Barge</u> James W. Barge | Director | July 30, 2009 |
| <u>/s/ Ramon C. Cortines</u> Ramon C. Cortines | Director | July 30, 2009 |
| <u>/s/ John L. Davies</u> John L. Davies | Director | July 30, 2009 |
| <u>/s/ Andrew S. Hedden</u> Andrew S. Hedden | Director | July 30, 2009 |

| Signature | Title | Date |
|---|--------------|---------------|
| <u>/s/ Mae C. Jemison</u> Mae C. Jemison | Director | July 30, 2009 |
| <u>/s/ Peter M. Mayer</u> Peter M. Mayer | Director | July 30, 2009 |
| <u>/s/ John G. McDonald</u> John G. McDonald | Director | July 30, 2009 |
| <u>/s/ Augustus K. Oliver</u> Augustus K. Oliver | Director | July 30, 2009 |
| <u>/s/ Richard M. Spaulding</u> Richard M. Spaulding | Director | July 30, 2009 |

[This Page Intentionally Left Blank]

Scholastic Corporation

Financial Statement Schedule

**ANNUAL REPORT ON FORM 10-K
YEAR ENDED MAY 31, 2009
ITEM 15(c)**

S-1

Schedule II

Valuation and Qualifying Accounts and Reserves

(Amounts in millions)

Years Ended May 31,

| | Balance at Beginning of Year | Expensed | Write-Offs and Other | Balance at End of Year |
|---------------------------------|------------------------------------|----------|----------------------------|------------------------------|
| 2009 | | | | |
| Allowance for doubtful accounts | \$ 14.2 | \$ 15.8 | \$ 14.8 | \$ 15.2 |
| Reserve for returns | 40.3 | 66.2 | 72.0 ⁽¹⁾ | 34.5 |
| Reserves for obsolescence | 69.2 | 28.4 | 23.2 | 74.4 |
| Reserve for royalty advances | 64.0 | 12.6 | 4.0 | 72.6 |
| 2008 | | | | |
| Allowance for doubtful accounts | \$ 13.8 | \$ 8.6 | \$ 8.2 | \$ 14.2 |
| Reserve for returns | 38.5 | 94.5 | 92.7 ⁽¹⁾ | 40.3 |
| Reserves for obsolescence | 57.4 | 29.4 | 17.6 | 69.2 |
| Reserve for royalty advances | 58.4 | 6.8 | 1.2 | 64.0 |
| 2007 | | | | |
| Allowance for doubtful accounts | \$ 10.4 | \$ 11.1 | \$ 7.7 | \$ 13.8 |
| Reserve for returns | 47.1 | 57.5 | 66.1 ⁽¹⁾ | 38.5 |
| Reserves for obsolescence | 55.1 | 26.7 | 24.4 | 57.4 |
| Reserve for royalty advances | 54.7 | 3.7 | | 58.4 |

(1) Represents actual returns charged to the reserve.

S-2

EXHIBIT INDEX

| EXHIBIT # | NAME |
|-----------|--|
| 10.2** | Scholastic Corporation Management Stock Purchase Plan, amended and restated effective as of September 23, 2008. |
| 10.4** | Scholastic Corporation Director's Deferred Compensation Plan, amended and restated effective as of September 23, 2008. |
| 10.5** | Scholastic Corporation 2007 Outside Directors Stock Incentive Plan (the "2007 Directors' Plan) as of September 23, 2008. |

Edgar Filing: SCHOLASTIC CORP - Form 10-K

- 10.7** Form of Restricted Stock Unit Agreement under the 2007 Directors' Plan as of September 23, 2008.
- 10.9** Scholastic Corporation 2001 Stock Incentive Plan (the "2001 Plan") amended and restated as of September 23, 2008 together with Amendment No. 1 thereto dated July 21, 2009.
- 10.10** Form of Restricted Stock Unit Agreement under the 2001 Plan as of July 21, 2009.
- 10.11** Amended and Restated Guidelines for Stock Units Granted under the 2001 Plan as of July 21, 2009.
- 10.12** Form of Option Agreement under the 2001 Plan as of July 21, 2009.
- 10.19** Agreement between Devereux Chatillon and Scholastic Inc., dated November 30, 2008 with regard to certain severance arrangements.
- 21 Subsidiaries of the Corporation
- 23 Consent of Ernst & Young LLP
- 31.1 Certification of the Chief Executive Officer of the Corporation filed pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 31.2 Certification of the Chief Financial Officer of the Corporation filed pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 32 Certification of the Chief Executive Officer and the Chief Financial Officer of the Corporation filed pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

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