SCHOLASTIC CORP
Form 10-Q
September 27, 2013

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

FORM 10-Q

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

For the quarterly period ended August 31, 2013 Commission File No. 000-19860

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

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

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

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

Yes S 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 S No £

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

Large accelerated filer S	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 Exchange Act).
Yes £ No S

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

Title of each class	Number of shares outstanding as of August 31, 2013
Common Stock,	30,233,561

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

1

SCHOLASTIC CORPORATION

FORM 10-Q FOR THE QUARTERLY PERIOD ENDED AUGUST 31, 2013

INDEX

PART I - FINANCIAL INFORMATION

Item 1. Financial Statements

SCHOLASTIC CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS - UNAUDITED

(Dollar amounts in millions, except per share data)

	Three months ended	
	August 31, 2013	August 31, 2012
Revenues	$276.3	$293.4
Operating costs and expenses:		
Cost of goods sold (exclusive of depreciation)	137.9	150.8
Selling, general and administrative expenses (exclusive of depreciation and amortization)	168.4	173.5
Depreciation and amortization	15.9	16.1
Total operating costs and expenses	322.2	340.4
Operating income (loss)	(45.9)	(47.0)
Interest expense, net	(1.9)	(3.7)
Earnings (loss) from continuing operations before income taxes	(47.8)	(50.7)
Provision (benefit) for income taxes	(17.7)	(19.0)
Earnings (loss) from continuing operations	(30.1)	(31.7)

Earnings (loss) from discontinued operations, net of tax	0.2	(0.4)
Net income (loss)	$(29.9)	$(32.1)
Basic and diluted earnings (loss) per Share of Class A and Common Stock		
Basic:		
Earnings (loss) from continuing operations	$(0.94)	$(1.01)
Earnings (loss) from discontinued operations, net of tax	$0.00	$(0.01)
Net income (loss)	$(0.94)	$(1.02)
Diluted:		
Earnings (loss) from continuing operations	$(0.94)	$(1.01)
Earnings (loss) from discontinued operations, net of tax	$0.00	$(0.01)
Net income (loss)	$(0.94)	$(1.02)
Dividends declared per class A and common share	$0.125	$0.125

See accompanying notes

3

SCHOLASTIC CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS) - UNAUDITED

(Dollar amounts in millions)

	Three months ended	
	August 31, 2013	August 31, 2012
Net income (loss)	$(29.9)	$(32.1)
Other comprehensive income (loss), net:		
Foreign currency translation adjustments	(5.6)	5.1
Pension and post-retirement adjustments:		
Amortization of prior service cost (credit)	(0.1)	(0.1)
Amortization of unrecognized gain (loss) included in net periodic cost	0.9	1.2
Total other comprehensive income (loss)	$(4.8)	$6.2
Comprehensive income (loss)	$(34.7)	$(25.9)

See accompanying notes

4

SCHOLASTIC CORPORATION

CONDENSED CONSOLIDATED BALANCE SHEETS - UNAUDITED

(Dollar amounts in millions, except per share data)

	August 31, 2013	May 31, 2013	August 31, 2012
ASSETS			
Current Assets:			
Cash and cash equivalents	$15.8	$87.4	$193.1
Accounts receivable, net	211.6	214.9	211.5
Inventories, net	374.6	278.1	396.4
Deferred income taxes	79.2	79.2	71.5
Prepaid expenses and other current assets	107.1	61.2	97.7
Current assets of discontinued operations	0.4	0.4	8.1
Total current assets	788.7	721.2	978.3
Property, plant and equipment, net	302.6	311.6	326.4
Prepublication costs	148.9	147.3	129.1
Royalty advances, net	37.9	37.0	35.4
Production costs	2.3	1.7	2.1
Goodwill	157.9	157.9	157.7
Other intangibles	14.0	14.6	16.4
Noncurrent deferred income taxes	14.7	14.9	42.6
Other assets and deferred charges	39.4	34.8	34.8
Total assets	$1,506.4	$1,441.0	$1,722.8
LIABILITIES AND STOCKHOLDERS' EQUITY			
Current Liabilities:			
Lines of credit, short-term debt and current portion of long-term debt	$29.2	$2.0	$0.6
Capital lease obligations	0.1	0.2	0.8
Accounts payable	207.3	156.2	211.3
Accrued royalties	45.5	34.4	109.1
Deferred revenue	81.9	48.1	72.4
Other accrued expenses	160.0	179.5	188.1
Current liabilities of discontinued operations	1.3	1.3	2.0

Total current liabilities	525.3	421.7	584.3
Noncurrent Liabilities:			
Long-term debt	—	—	152.8
Capital lease obligations	57.7	57.5	56.7
Other noncurrent liabilities	95.5	97.4	123.3
Total noncurrent liabilities	153.2	154.9	332.8
Commitments and Contingencies:	—	—	—
Stockholders' Equity:			
Preferred Stock, $1.00 par value	—	—	—
Class A Stock, $.01 par value	0.0	0.0	0.0
Common Stock, $.01 par value	0.4	0.4	0.4
Additional paid-in capital	581.2	582.9	584.7
Accumulated other comprehensive income (loss)	(70.2)	(65.4)	(68.0)
Retained earnings	705.3	738.9	687.8
Treasury stock at cost	(388.8)	(392.4)	(399.2)
Total stockholders' equity	827.9	864.4	805.7
Total liabilities and stockholders' equity	$1,506.4	$1,441.0	$1,722.8

See accompanying notes

5

SCHOLASTIC CORPORATION

CONSOLIDATED STATEMENTS OF CASH FLOWS – UNAUDITED

(Dollar amounts in millions)

	Three months ended	
	August 31, 2013	August 31, 2012
Cash flows - operating activities:		
Net income (loss)	$(29.9)	$(32.1)
Earnings (loss) from discontinued operations, net of tax	0.2	(0.4)
Earnings (loss) from continuing operations	(30.1)	(31.7)
Adjustments to reconcile earnings from continuing operations to net cash provided by (used in) operating activities of continuing operations:		
Provision for losses on accounts receivable	1.4	0.5
Provision for losses on inventory	4.8	5.4
Provision for losses on royalty advances	1.0	1.3
Amortization of prepublication and production costs	13.3	11.8
Depreciation and amortization	16.3	16.1
Stock-based compensation	1.1	2.0
Non cash net (gain) loss on equity investments	(0.7)	(0.5)
Changes in assets and liabilities:		
Accounts receivable	(1.1)	106.2
Inventories	(105.0)	(102.9)
Other current assets	(40.7)	(45.0)
Deferred promotion costs	(5.5)	(5.7)
Royalty advances	(1.8)	(1.7)
Accounts payable	52.5	90.1
Other accrued expenses	(18.3)	(46.9)
Accrued royalties	11.3	15.8
Deferred revenue	34.0	25.1
Pension and post-retirement liability	(3.1)	(3.2)
Other noncurrent liability	(0.9)	(0.9)
Other, net	0.5	(1.6)
Total adjustments	(40.9)	65.9

Net cash provided by (used in) operating activities of continuing operations	(71.0)	34.2
Net cash provided by (used in) operating activities of discontinued operations	0.2	(0.0)
Net cash provided by (used in) operating activities	(70.8)	34.2
Cash flows - investing activities:		
Prepublication and production expenditures	(15.7)	(15.7)
Additions to property, plant and equipment	(7.3)	(13.6)
Other	(1.0)	(0.1)
Net cash provided by (used in) investing activities of continuing operations	(24.0)	(29.4)
Net cash used in investing activities of discontinued operations	—	(0.9)
Net cash provided by (used in) investing activities	(24.0)	(30.3)

See accompanying notes

6

SCHOLASTIC CORPORATION

CONSOLIDATED STATEMENTS OF CASH FLOWS – UNAUDITED

(Dollar amounts in millions)

	Three months ended	
	August 31, 2013	August 31, 2012
Cash flows - financing activities:		
Borrowings under credit agreement and revolving loan	15.0	—
Borrowings under lines of credit	35.0	5.0
Repayment of lines of credit	(22.9)	(10.8)
Repayment of capital lease obligations	(0.1)	(0.3)
Reacquisition of common stock	(0.4)	—
Proceeds pursuant to stock-based compensation plans	1.3	2.8
Payment of dividends	(4.0)	(4.0)
Other	0.1	0.6
Net cash provided by (used in) financing activities of continuing operations	24.0	(6.7)
Effect of exchange rate changes on cash and cash equivalents	(0.8)	1.0
Net increase (decrease) in cash and cash equivalents	(71.6)	(1.8)
Cash and cash equivalents at beginning of period	87.4	194.9
Cash and cash equivalents at end of period	$15.8	$193.1

See accompanying notes

SCHOLASTIC CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS – UNAUDITED

(Dollar amounts in millions, except per share data)

1. Basis of Presentation

Principles of consolidation

The accompanying condensed consolidated financial statements include the accounts of Scholastic Corporation (the "Corporation") and all wholly-owned and majority-owned subsidiaries (collectively, "Scholastic" or the "Company"). Intercompany transactions are eliminated in consolidation. These financial statements have not been audited but reflect those adjustments consisting of normal recurring items that management considers necessary for a fair presentation of financial position, results of operations and cash flows. These financial statements should be read in conjunction with the consolidated financial statements and related notes in the Annual Report on Form 10-K for the fiscal year ended May 31, 2013 (the "Annual Report").

The Company's fiscal year is not a calendar year. Accordingly, references in this document to fiscal 2013 relate to the twelve-month period ended May 31, 2013.

Reclassifications

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

Discontinued Operations

The Company closed or sold several operations during fiscal 2012 and fiscal 2013. All of these businesses are classified as discontinued operations in the Company's financial statements. See Note 2, "Discontinued Operations," for additional information.

Seasonality

The Company's *Children's Book Publishing and Distribution* school-based channels 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 these school-based channel revenues are greatest in the second and fourth quarters of the fiscal year, while revenues from the sale of instructional materials and educational technology products and services are highest in the first and fourth quarters. The Company generally experiences a loss from operations in the first and third quarters of each fiscal year.

Use of estimates

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

SCHOLASTIC CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS – UNAUDITED

(Dollar amounts in millions, except per share data)

including, but not limited to:

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

Restricted Cash

The condensed consolidated balance sheets include restricted cash of $0.2, $1.0 and $0.8 at August 31, 2013, May 31, 2013 and August 31, 2012, respectively, which is reported in "Other current assets."

New Accounting Pronouncements

In July 2013, the Financial Accounting Standards Board (the "FASB") issued an update to the authoritative guidance related to the financial statement presentation of an unrecognized tax benefit when a net operating loss carryforward, a similar tax loss, or a tax credit carryforward exists to address diversity in practice in the presentation of unrecognized tax benefits.

An unrecognized tax benefit, or a portion of an unrecognized tax benefit, should be presented in the financial statements as a reduction to a deferred tax asset for a net operating loss carryforward, a similar tax loss, or a tax credit carryforward, except as follows:

To the extent a net operating loss carryforward, a similar tax loss, or a tax credit carryforward is not available at the reporting date under the tax law of the applicable jurisdiction to settle any additional income taxes that would result from the disallowance of a tax position or the tax law of the applicable jurisdiction does not require the entity to use, and the entity does not intend to use, the deferred tax asset for such purpose, the unrecognized tax benefit should be presented in the financial statements as a liability and should not be combined with deferred tax assets. The assessment of whether a deferred tax asset is available is based on the unrecognized tax benefit and deferred tax asset that exist at the reporting date and should be made presuming disallowance of the tax position at the reporting date. No new disclosures are required as a result of this update. The amendments in this update are effective prospectively for reporting periods beginning after December 15, 2013 for all unrecognized tax benefits that exist at the effective date. This new guidance is not yet effective for the fiscal period covered by this quarterly report. The Company is evaluating the impact that this update will have on its consolidated financial position, results of operations and cash flows.

SCHOLASTIC CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS – UNAUDITED

(Dollar amounts in millions, except per share data)

2. Discontinued Operations

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

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

	Three months ended August 31, 2013	August 31, 2012
Revenues	$0.0	$ 0.2
Earnings (loss) before income taxes	0.3	(0.7)
Income tax benefit (provision)	(0.1)	0.3
Earnings (loss) from discontinued operations, net of tax	$0.2	$ (0.4)

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

	August 31, 2013	May 31, 2013	August 31, 2012
Accounts receivable, net	$0.0	$0.0	$0.1
Other assets	0.4	0.4	8.0
Current assets of discontinued operations	$0.4	$0.4	$8.1
Accrued expenses and other current liabilities	1.3	1.3	2.0
Current liabilities of discontinued operations	$1.3	$1.3	$2.0

10

SCHOLASTIC CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS – UNAUDITED

(Dollar amounts in millions, except per share data)

3. Segment Information

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

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

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

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

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

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

SCHOLASTIC CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS – UNAUDITED

(Dollar amounts in millions, except per share data)

	Children's Book Publishing and Distribution (1)	**Educational Technology and Services (1)**	**Classroom and Supplemental Materials Publishing (1)**	**Media, Licensing and Advertising (1)**	**Overhead (1) (2)**	Total Domestic	**International (1)**	Total
Three months ended August 31, 2013								
Revenues	$ 54.6	$ 94.8	$ 37.8	$ 10.4	$ —	$ 197.6	$ 78.7	$ 276.3
Bad debt expense	0.4	0.4	—	—	—	0.8	0.6	1.4
Depreciation and amortization(3)	4.0	0.3	0.3	0.1	10.0	14.7	1.2	15.9
Amortization(4)	4.0	6.0	2.3	0.5	—	12.8	0.5	13.3
Segment operating income (loss)	(61.5)	36.2	(1.6)	(1.9)	(16.4)	(45.2)	(0.7)	(45.9)
Segment assets at 8/31/13	464.2	207.8	153.6	25.1	407.7	1,258.4	247.6	1,506.0
Goodwill at 8/31/13	54.3	22.7	65.4	5.4	—	147.8	10.1	157.9
Expenditures for long-lived assets including royalty advances	11.4	8.5	2.0	1.1	5.2	28.2	2.5	30.7
Long-lived assets at 8/31/13	163.6	118.6	90.5	12.2	236.2	621.1	64.4	685.5
Three months ended August 31, 2012								
Revenues	$ 70.9	$ 80.0	$ 37.9	$ 14.4	$ —	$ 203.2	$ 90.2	$ 293.4
Bad debt expense	(0.2)	0.3	(0.2)	0.0	—	(0.1)	0.6	0.5
Depreciation and amortization(3)	3.8	0.3	0.4	0.1	10.3	14.9	1.2	16.1
Amortization(4)	3.5	5.5	1.7	0.5	—	11.2	0.6	11.8
Segment operating income (loss)	(54.9)	24.8	(2.6)	0.2	(17.3)	(49.8)	2.8	(47.0)
Segment assets at 8/31/12	526.9	219.6	171.4	40.4	440.9	1,399.2	315.5	1,714.7
Goodwill at 8/31/12	54.3	22.7	65.4	5.4	—	147.8	9.9	157.7
	15.1	8.2	1.8	1.1	7.5	33.7	2.4	36.1

Expenditures for long-lived assets including royalty advances								
Long-lived assets at 8/31/12	170.1	103.3	90.0	12.1	244.0	619.5	68.8	688.3

12

SCHOLASTIC CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS – UNAUDITED

(Dollar amounts in millions, except per share data)

(1) *As discussed under "Discontinued Operations" in Note 1, "Basis of Presentation," the Company closed or sold several operations during fiscal 2012 and fiscal 2013. All of these businesses are classified as discontinued operations in the Company's financial statements and, as such, are not reflected in this table.*

(2) *Overhead includes all domestic corporate amounts not allocated to segments, including expenses and costs related to the management of corporate assets. Unallocated assets are principally comprised of deferred income taxes and property, plant and equipment related to the Company's headquarters in the metropolitan New York area, its fulfillment and distribution facilities located in Missouri and its facility located in Connecticut. Overhead also includes amounts previously allocated to the Children's Book Publishing and Distribution segment for the computer club business that was discontinued in the fourth quarter of fiscal 2013.*

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

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

4. Debt

The following table summarizes debt as of the dates indicated:

	Carrying Value	**Fair Value**	**Carrying Value**	**Fair Value**	**Carrying Value**	**Fair Value**
	August 31, 2013		**May 31, 2013**		**August 31, 2012**	
Unsecured lines of credit (weighted average interest rates of 3.6%, 9.0% and 4.9%, respectively)	$14.2	$14.2	$2.0	$2.0	$0.6	$0.6
Loan Agreement:						
Revolving Loan (interest rates of 1.4%, n/a and n/a, respectively)	15.0	15.0	—	—	—	—
Term Loan	—	—	—	—	—	—
5% Notes due 2013, net of discount	—	—	—	—	152.8	153.6
Total debt	$29.2	$29.2	$2.0	$2.0	$153.4	$154.2
	(29.2)	(29.2)	(2.0)	(2.0)	(0.6)	(0.6)

Less lines of credit, short-term debt and current portion of long-term debt						
Total long-term debt	$—	$—	$—	$ —	$152.8	$153.6

13

SCHOLASTIC CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS – UNAUDITED

(Dollar amounts in millions, except per share data)

The carrying value of the Company’s short-term debt approximates its fair value.

The following table sets forth the maturities of the Company’s debt obligations as of August 31, 2013, for the twelve-month period ending August 31,

2014	$29.2
2015	—
Total debt	$29.2

Loan Agreement

Scholastic Corporation and Scholastic Inc. (each, a “Borrower” and together, the “Borrowers”) are parties to a $425.0 credit facility with certain banks (as amended, the “Loan Agreement”), which allows the Company to borrow, repay or prepay and reborrow at any time prior to the December 5, 2017 maturity date. Under the Loan Agreement, interest on amounts borrowed thereunder is due and payable in arrears on the last day of the interest period (defined as the period commencing on the date of the advance and ending on the last day of the period selected by the Borrower at the time each advance is made). The interest pricing under the Loan Agreement is dependent upon the Borrower’s election of a rate that is either:

- A Base Rate equal to the higher of (i) the prime rate, (ii) the prevailing Federal Funds rate plus 0.500% or (iii) the Eurodollar Rate for a one month interest period plus 1% plus, in each case, an applicable spread ranging from 0.18% to 0.60%, as determined by the Company’s prevailing consolidated debt to total capital ratio.

- or -

- A Eurodollar Rate equal to the London interbank offered rate (LIBOR) plus an applicable spread ranging from 1.18% to 1.60%, as determined by the Company’s prevailing consolidated debt to total capital ratio.

As of August 31, 2013, the indicated spread on Base Rate Advances was 0.18% and the indicated spread on Eurodollar Rate Advances was 1.18%, both based on the Company's prevailing consolidated debt to total capital ratio. The Loan Agreement also provides for the payment of a facility fee ranging from 0.20% to 0.40% per annum based upon the Company's prevailing consolidated debt to total capital ratio. At August 31, 2013, the facility fee rate was 0.20%.

There were outstanding borrowings totaling $15.0 under the Loan Agreement as of August 31, 2013.

The Company had open standby letters of credit totaling $6.6, including $1.4 under the Loan Agreement as of August 31, 2013.

The Loan Agreement contains certain covenants, including interest coverage and leverage ratio tests and certain limitations on the amount of dividends and other distributions, and at August 31, 2013, the Company was in compliance with these covenants.

SCHOLASTIC CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS – UNAUDITED

(Dollar amounts in millions, except per share data)

Lines of Credit

As of August 31, 2013, the Company's domestic credit lines available under unsecured money market bid rate credit lines totaled \$13.9. As of August 31, 2013, borrowings under these credit lines totaled \$5.9. There were no outstanding borrowings under these credit lines at May 31, 2013 and August 31, 2012. All loans made under these credit lines are at the sole discretion of the lender and at an interest rate and term agreed to at the time each loan is made, but not to exceed 365 days. These credit lines may be renewed, if requested by the Company, at the option of the lender.

As of August 31, 2013, the Company had various local currency credit lines, with maximum available borrowings in amounts equivalent to \$30.0, 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. Outstanding borrowings under these lines of credit totaled \$8.3, \$2.0 and \$0.6 at August 31, 2013, May 31, 2013 and August 31, 2012, respectively.

5. Commitments and Contingencies

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

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

15

SCHOLASTIC CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS – UNAUDITED

(Dollar amounts in millions, except per share data)

6. Earnings (Loss) Per Share

The following table summarizes the reconciliation of the numerators and denominators for the basic and diluted earnings (loss) per share computation for the three-month periods ended August 31, 2013 and 2012, respectively:

	Three months ended	
	August 31, 2013	August 31, 2012
Earnings (loss) from continuing operations attributable to Class A and Common Shares	$(30.1)	$(31.7)
Earnings (loss) from discontinued operations attributable to Class A and Common Shares, net of tax	0.2	(0.4)
Net income (loss) attributable to Class A and Common Shares	$(29.9)	$(32.1)
Weighted average Shares of Class A Stock and Common Stock outstanding for basic earnings (loss) per share (in millions)	31.8	31.5
Dilutive effect of Class A Stock and Common Stock potentially issuable pursuant to stock-based compensation plans (in millions)	*	*
Adjusted weighted average Shares of Class A Stock and Common Stock outstanding for diluted earnings (loss) per share (in millions)	*	*
Earnings (loss) per share of Class A Stock and Common Stock:		
Basic earnings (loss) per share:		
Earnings (loss) from continuing operations	$(0.94)	$(1.01)
Earnings (loss) from discontinued operations, net of tax	$0.00	$(0.01)
Net income (loss)	$(0.94)	$(1.02)
Diluted earnings (loss) per share:		
Earnings (loss) from continuing operations	$(0.94)	$(1.01)
Earnings (loss) from discontinued operations, net of tax	$0.00	$(0.01)
Net income (loss)	$(0.94)	$(1.02)

* In each of the three month periods ended August 31, 2013 and 2012, the Company experienced a loss from continuing operations and therefore did not report any dilutive share impact.

16

SCHOLASTIC CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS – UNAUDITED

(Dollar amounts in millions, except per share data)

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

	August 31, 2013	August 31, 2012
Options outstanding pursuant to stock-based compensation plans (in millions)	4.0	5.1

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

In a period in which the Company reports a discontinued operation, Earnings (loss) from continuing operations is used as the “control number” in determining whether potentially dilutive common shares are dilutive or anti-dilutive.

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

As of August 31, 2013, $19.0 remains available for future purchases of common shares under the current repurchase authorization of the Board of Directors. See Note 12, “Treasury Stock,” for a more complete description of the Company’s share buy-back program.

7. Goodwill and Other Intangibles

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

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

The Company did not have any impairment indicators in the fiscal quarter ended August 31, 2013, but continues to closely monitor its book clubs reporting unit, as this reporting unit's fair value is largely dependent upon the success of the Storia ereading app, which was launched in fiscal 2012. Should Storia not achieve its projected revenue, and the Company is unable to adjust its strategy to effectively compensate, there is a potential for an impairment of goodwill in this reporting unit in future periods.

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

	Three months ended August 31, 2013	**Twelve months ended May 31, 2013**	Three months ended August 31, 2012
Gross beginning balance	$ 178.7	$ 178.5	$ 178.5
Accumulated impairment	(20.8)	(20.8)	(20.8)
Beginning balance	$ 157.9	$ 157.7	$ 157.7
Foreign currency translation	0.0	0.0	0.0
Other	—	0.2	—
Gross ending balance	$ 178.7	$ 178.7	$ 178.5
Accumulated impairment	(20.8)	(20.8)	(20.8)
Ending balance	$ 157.9	$ 157.9	$ 157.7

SCHOLASTIC CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS – UNAUDITED

(Dollar amounts in millions, except per share data)

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

	Three months ended August 31, 2013	**Twelve months ended May 31, 2013**	Three months ended August 31, 2012
Beginning balance - customer lists	$ 3.4	$ 4.3	$ 4.3
Additions	—	0.1	0.1
Amortization expense	(0.2)	(1.0)	(0.2)
Foreign currency translation	0.0	0.0	0.0
Customer lists, net of accumulated amortization of $2.5, $2.3 and $1.5, respectively	$ 3.2	$ 3.4	$ 4.2
Beginning balance - other intangibles	$ 9.2	$ 10.4	$ 10.4
Additions	—	0.2	—
Amortization expense	(0.4)	(1.5)	(0.3)
Foreign currency translation	0.0	—	—
Other	—	0.1	0.1
Other intangibles, net of accumulated amortization of $12.4, $12.0 and $10.8, respectively	$ 8.8	$ 9.2	$ 10.2
Total other intangibles subject to amortization	$ 12.0	$ 12.6	$ 14.4
Trademarks and other	$ 2.0	$ 2.0	$ 2.0
Total other intangibles not subject to amortization	$ 2.0	$ 2.0	$ 2.0
Total other intangibles	$ 14.0	$ 14.6	$ 16.4

Amortization expense for Total other intangibles was $0.6 and $0.5 for the three months ended August 31, 2013 and 2012, respectively. Intangible assets with definite lives consist principally of customer lists, covenants not to compete and trademark rights. Intangible assets with definite lives are amortized over their estimated useful lives. The weighted-average remaining useful lives of all amortizable intangible assets is 9 years.

SCHOLASTIC CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS – UNAUDITED

(Dollar amounts in millions, except per share data)

8. Investments

Included in “Other assets and deferred charges” on the Company’s condensed consolidated balance sheets were investments of $21.9, $19.6 and $21.2 at August 31, 2013, May 31, 2013 and August 31, 2012, respectively.

In the fiscal quarter ended August 31, 2013, the Company acquired a 20% interest in a software development business for $1.0 in cash, which is accounted for using the equity method of accounting. The Company owns a 15% non-controlling interest in a book distribution business located in the UK, which is accounted for as a cost-basis investment. The Company’s 26.2% non-controlling interest in a children’s book publishing business located in the UK is accounted for using the equity method of accounting. Income from equity investments totaled $0.7 and $0.5 for the three months ended August 31, 2013 and 2012, respectively.

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

	August 31, 2013	May 31, 2013	August 31, 2012
Cost method investments:			
UK - based	$ 4.7	$ 5.0	$ 5.5
Total cost method investments	$ 4.7	$ 5.0	$ 5.5
Equity method investments:			
UK - based	$ 16.2	$ 14.6	$ 15.7
Other	1.0	—	—
Total equity method investments	$ 17.2	$ 14.6	$ 15.7
Total	$ 21.9	$ 19.6	$ 21.2

19

SCHOLASTIC CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS – UNAUDITED

(Dollar amounts in millions, except per share data)

9. Employee Benefit Plans

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

	Pension Plans Three months ended		**Post-Retirement Benefits Three months ended**	
	August 31, 2013	August 31, 2012	August 31, 2013	August 31, 2012
Components of net periodic benefit (credit) cost:				
Service cost	$—	$—	$ 0.0	$ 0.0
Interest cost	1.8	1.7	0.3	0.4
Expected return on assets	(3.1)	(2.6)	—	—
Net amortization of prior service credit	—	—	(0.0)	(0.1)
Amortization of loss	0.4	0.5	0.6	0.9
Net periodic benefit (credit) cost	$(0.9)	$ (0.4)	$ 0.9	$ 1.2

The Company's funding practice with respect to the Pension Plans is to contribute on an annual basis at least the minimum amounts required by applicable laws. For the three months ended August 31, 2013, the Company contributed $1.7 to the U.S. Pension Plan and $0.3 to the UK Pension Plan.

The Company expects, based on actuarial calculations, to contribute cash of approximately $8.3 to the Pension Plans for the fiscal year ending May 31, 2014.

10. Stock-Based Compensation

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

	Three months ended	
	August 31, 2013	August 31, 2012
Stock option expense	$0.2	$ 1.0
Restricted stock unit expense	0.8	0.9
Management stock purchase plan	0.0	0.0
Employee stock purchase plan	0.1	0.1
Total stock-based compensation expense	$1.1	$ 2.0

During each of the three month periods ended August 31, 2013 and 2012, shares of Common Stock issued by the Corporation pursuant to its stock-based compensation plans were not material.

SCHOLASTIC CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS – UNAUDITED

(Dollar amounts in millions, except per share data)

11. Accrued Severance

The table below provides information regarding Accrued severance, which is included in “Other accrued expenses” in the Company’s condensed consolidated balance sheets.

	Three months ended August 31, 2013	Twelve months ended May 31, 2013	Three months ended August 31, 2012
Beginning balance	$ 3.3	$ 2.7	$ 2.7
Accruals	2.3	13.4	1.3
Payments	(3.6)	(12.8)	(2.9)
Ending balance	$ 2.0	$ 3.3	$ 1.1

In the first quarter of fiscal 2014, the Company continued to implement cost savings initiatives, resulting in severance expense of $2.0. Severance expenses are reported in “Selling, general and administrative expenses.”

12. Treasury Stock

The Board of Directors has authorized the Company to repurchase Common Stock, from time to time as conditions allow, on the open market or through negotiated private transactions. The table below represents the remaining Board authorization:

Board Authorization	Amount
September 2010	$ 44.0
Less repurchases made under this authorization	(25.0)

Remaining Board authorization at August 31, 2013	$ 19.0

The Company’s repurchase program may be suspended at any time without prior notice. There were $0.6 repurchases of Common Stock made during the first fiscal quarter of 2014.

SCHOLASTIC CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS – UNAUDITED

(Dollar amounts in millions, except per share data)

13. Fair Value Measurements

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

- **Level 1** Unadjusted quoted prices in active markets for identical assets or liabilities at the measurement date.
- **Level 2** Observable inputs other than unadjusted quoted prices in active markets for identical assets or liabilities such as
    - Quoted prices for similar assets or liabilities in active markets
    - Quoted prices for identical or similar assets or liabilities in inactive markets
    - Inputs other than quoted prices that are observable for the asset or liability
    - Inputs that are derived principally from or corroborated by observable market data by correlation or other means
- **Level 3** Unobservable inputs in which there is little or no market data available, which are significant to the fair value measurement and require the Company to develop its own assumptions.

The Company's financial assets and liabilities measured at fair value consisted of cash and cash equivalents, debt and foreign currency forward contracts. Cash and cash equivalents are comprised of bank deposits and short-term investments, such as money market funds, the fair value of which is based on quoted market prices, a Level 1 fair value measure. The Company employs Level 2 fair value measurements for the disclosure of the fair value of its 5% Notes and its various lines of credit. See Note 4, "Debt," for a more complete description of fair value measurements employed. The fair values of foreign currency forward contracts, used by the Company to manage the impact of foreign exchange rate changes to the financial statements, are based on quotations from financial institutions, a Level 2 fair value measure. See Note 15, "Derivatives and Hedging," for a more complete description of fair value measurements employed.

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

· Long-lived assets

· Investments

· Assets acquired in a business combination

· Goodwill and indefinite-lived intangible assets

· Long-lived assets held for sale

Level 2 and Level 3 inputs are employed by the Company in the fair value measurement of these assets and liabilities.

14. Income Taxes and Other Taxes

Income Taxes

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

The Company’s annual effective tax rate for the fiscal year ending May 31, 2014 is currently expected to be approximately 40%.

SCHOLASTIC CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS – UNAUDITED

(Dollar amounts in millions, except per share data)

The Company, including its domestic subsidiaries, files a consolidated U.S. income tax return, and also files tax returns in various states and other local jurisdictions. Also, certain subsidiaries of the Company file income tax returns in foreign jurisdictions. The Company is routinely audited by various tax authorities. The Company is currently under audit by the Internal Revenue Service for fiscal years ended May 31, 2007, 2008 and 2009. The Company is currently under audit by New York State for fiscal years ended May 31, 2006, 2007 and 2008 and by New York City for fiscal years ended May 31, 2005, 2006 and 2007. If any of these tax examinations are concluded within the next twelve months, the Company will make any necessary adjustments to its unrecognized tax benefits.

Non-income Taxes

The Company is subject to tax examinations for sales-based taxes. A number of these examinations are ongoing and, in certain cases, have resulted in assessments from taxing authorities. Where a sales tax liability with respect to a particular jurisdiction is probable and can be reliably estimated, the Company has made accruals for these matters which are reflected in the Company's condensed consolidated financial statements.

15. Derivatives and Hedging

The Company enters into foreign currency derivative contracts to economically hedge the exposure to foreign currency fluctuations associated with the forecasted purchase of inventory and the foreign exchange risk associated with certain receivables denominated in foreign currencies. These derivative contracts are economic hedges and are not designated as cash flow hedges. The Company marks-to-market these instruments and records the changes in the fair value of these items in current earnings, and it recognizes the unrealized gain or loss in other current assets or liabilities. Unrealized gains of $0.4 and less than $0.1 were recognized at August 31, 2013 and 2012, respectively.

16. Other Accrued Expenses

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

	August 31, 2013	May 31, 2013	August 31, 2012
Accrued payroll, payroll taxes and benefits	$40.3	$45.8	$44.1
Accrued bonus and commissions	20.7	22.0	25.6
Accrued other taxes	24.4	29.3	37.2
Accrued advertising and promotions	33.1	38.2	34.1
Accrued income taxes	4.4	5.5	6.8
Accrued insurance	8.9	8.7	8.6
Other accrued expenses	28.2	30.0	31.7
Total accrued expenses	$160.0	$179.5	$188.1

17. Subsequent Events

On September 18, 2013, the Company announced that the Board of Directors declared a cash dividend of $0.15 per Class A and Common share in respect of the second quarter of fiscal 2014. The dividend is payable on December 16, 2013 to stockholders of record on October 31, 2013.

SCHOLASTIC CORPORATION

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

Overview and Outlook

Revenue for the quarter ended August 31, 2013 was $276.3 million, compared to $293.4 million in the prior fiscal period. The Company reported a loss per share from continuing operations of $0.94 in the current quarter, versus a loss per share from continuing operations of $1.01 in the prior year period.

Current quarter results were largely driven by strong sales of the Company's new educational technology programs and guided reading programs. Successful product launches in *Educational Technology and Services* drove segment revenue and operating profit growth of 19% and 46%, respectively. While these results were offset by the lower sales of the Hunger Games trilogy in the *Children's Book Publishing and Distribution*, *International* and *Media, Licensing and Advertising* segments in the first fiscal quarter compared to the prior fiscal period, the first quarter sales of the Hunger Games were within expectations. The Company typically records a loss in its fiscal first quarter, when most U.S. schools are not in session and its school book club and school book fairs school channels generate minimal revenue.

Recent successful product launches, including *System 44® Next Generation*, *MATH 180*™, *iRead*™, *Common Core Code X*™, and *READ 180* for iPad®, demonstrate the Company's ability to deepen engagement and grow the Company's market reach among grade levels and subject areas. The Company's suite of print and digital programs serves to help students reach higher goals and achieve college and career readiness under the new Common Core State Standards, and demand for the Company's professional development and school improvement services also continues to grow from school districts that are in widely varying stages of implementing these standards. The Company expects this ongoing implementation process to result in a prolonged purchasing period for its instructional programs and services this school year.

Sales of the Hunger Games trilogy during the quarter ended August 31, 2013 were within Company expectations, and the Company anticipates additional interest in the trilogy in anticipation of the Catching Fire film release. Book fair bookings are as expected and, in preparation for the new school year, the Company has redesigned its book club flyers to feature grade-specific titles for children from pre-K to eighth grade. The Company expects these school channels will continue to help families find the right books at the right level for their children, which is increasingly important for students under the Common Core standards.

The Company continues to anticipate total revenues of approximately $1.8 billion and earnings per diluted share from continuing operations in the range of $1.40 to $1.80, before the impact of one-time items associated with cost reduction programs, or non-cash, non-operating items.

SCHOLASTIC CORPORATION

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

Results of Operations – Consolidated

Revenues for the quarter ended August 31, 2013 decreased by $17.1 million to $276.3 million, compared to $293.4 million in the prior fiscal period. The reduction was driven by expected lower revenues from the Hunger Games trilogy of $26.2 million in the *Children's Book Publishing and Distribution* segment, the *International* segment and the *Media, Licensing and Advertising* segment. Partially offsetting these declines were strong results from new product offerings in the Company's *Educational Technology and Services* segment. *MATH 180™,* iRead™ and *Common Core Code X™,* all of which are new product offerings successfully launched for the current school year, resulted in increased revenues of $15.1 million. Lower *International* segment revenues also resulted from a strengthening of the dollar in the current fiscal period compared to the prior fiscal period and the absence of low margin software sales totaling $7.4 million.

Cost of goods sold as a percentage of revenue for the quarter ended August 31, 2013 decreased to 49.9%, compared to 51.4% in the prior fiscal period. Of Company revenues for the quarter, 34.3% were from the *Educational Technology and Services* segment, compared to 27.3% in the prior fiscal period. The *Educational Technology and Services* segment experienced significantly higher gross margins than the *Children's Book Publishing and Distribution* segment. The *Children's Book Publishing and Distribution* segment revenues decreased to 19.8% of total Company revenues in the quarter, compared to 24.2% in the prior fiscal period. This shift in the composition of revenues resulted in the overall improved gross margins.

Components of Cost of goods sold (exclusive of depreciation) for the three months ended August 31, 2013 and 2012 are as follows:

	Three months ended					
	August 31, 2013			**August 31, 2012**		
	$	**% of Revenue**		**$**	**% of Revenue**	
Product, service and production costs	$66.6	24.1	%	$72.5	24.7	%
Royalty costs	17.4	6.3	%	23.2	7.9	%
Prepublication and production amortization	13.1	4.7	%	11.6	4.0	%
Postage, freight, shipping, fulfillment and other	40.8	14.8	%	43.5	14.8	%
Total	$137.9	49.9	%	$150.8	51.4	%

Selling, general and administrative expenses (exclusive of depreciation and amortization) in the quarter ended August 31, 2013 decreased by $5.1 million to $168.4 million, compared to $173.5 million in the prior fiscal period. The Company experienced lower salaries and benefits of $3.7 million compared to the prior fiscal period as a result of prior cost savings initiatives. The Company recognized $2.0 million of severance costs related to cost saving initiatives implemented in the current fiscal quarter.

For the quarter ended August 31, 2013, net interest expense decreased to $1.9 million, compared to $3.7 million in the prior fiscal period, reflecting the April 2013 maturation of the Company’s 5% Notes.

The Company’s effective tax rate for the current fiscal quarter was 37.0%, compared to 37.5% in the prior fiscal period. The Company expects an effective tax rate of approximately 40% for fiscal 2014.

Earnings from discontinued operations, net of tax, for the quarter ended August 31, 2013 was $0.2 million, compared to a loss of $0.4 million in the prior fiscal period. The Company did not discontinue any operations in the current fiscal period.

SCHOLASTIC CORPORATION

Item 2. MD&A

Results of Continuing Operations

Children's Book Publishing and Distribution

($ amounts in millions)	Three months ended August 31, 2013	August 31, 2012	$ change	% change
Revenues	$54.6	$70.9	$(16.3)	-23.0 %
Cost of goods sold (exclusive of depreciation)	36.6	41.9	(5.3)	-12.6 %
Other operating expenses *	75.5	80.1	(4.6)	-5.7 %
Depreciation and amortization	4.0	3.8	0.2	5.3 %
Operating income (loss)	$(61.5)	$(54.9)	$(6.6)	
Operating margin	—	—		

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

Revenues for the quarter ended August 31, 2013 decreased by $16.3 million to $54.6 million, compared to $70.9 million in the prior fiscal period. Lower revenues in the Company's trade channel reflected decreased sales of the Hunger Games trilogy of $15.8 million compared to the prior fiscal period. The decrease in Hunger Games revenues includes $11.5 million of high margin digital products. Trade revenues from other titles increased in the quarter due to strong demand for Harry Potter titles and front list titles such as *Star Wars: Jedi Academy* by Jeffrey Brown*, The Adventures of Captain Underpants: Color Edition* by Dav Pilkey, and *Geronimo Stilton and the Kingdom of Fantasy #5: The Volcano of Fire*. Revenues from book fairs and book clubs, the segment's school channels, decreased by $1.0 million due primarily to the timing of school openings. School channel revenues are not significant in the first quarter of the year, as schools are not in session.

Cost of goods sold for the quarter ended August 31, 2013 was $36.6 million, or 67.0% of revenues, compared to $41.9 million, or 59.1% of revenues, in the prior fiscal period. The absolute decrease in cost of goods sold of $5.3 million is due to the lower level of Hunger Games sales in the current period compared to the first quarter of fiscal 2013. Cost of goods sold as a percentage of revenue increased due to the aforementioned decrease in Hunger Games digital titles, which carry higher gross margins than physical product.

Other operating expenses declined to $75.5 million for the quarter ended August 31, 2013, compared to $80.1 million in the prior fiscal period, due to $1.7 million of lower promotional expenses and decreased administrative expenses.

Segment operating loss for the quarter ended August 31, 2013 increased by $6.6 million to $61.5 million, compared to $54.9 million in the prior fiscal period. The prior fiscal period benefited from the success of the Hunger Games trilogy. The segment generally experiences losses in the first quarter as the school channels are incurring expenses in preparation for the upcoming school year, but do not yet have significant revenues.

SCHOLASTIC CORPORATION

Item 2. MD&A

Educational Technology and Services

($ amounts in millions)	Three months ended August 31, 2013	August 31, 2012	$ change	% change
Revenues	$94.8	$ 80.0	$ 14.8	18.5 %
Cost of goods sold (exclusive of depreciation)	28.1	25.7	2.4	9.3 %
Other operating expenses *	30.2	29.2	1.0	3.4 %
Depreciation and amortization	0.3	0.3	—	0.0 %
Operating income (loss)	$36.2	$ 24.8	$ 11.4	
Operating margin	38.2%	31.0 %		

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

Revenues for the quarter ended August 31, 2013 increased by $14.8 million to $94.8 million, compared to $80.0 million in the prior fiscal period. The increase was driven by strong customer demand for newly launched products such *as MATH 180*™, iRead™ and *Common Core Code X*™. Collectively these new products accounted for $15.1 million of increased revenues in the current period. Revenues from the Company's curriculum technology reading platforms increased $1.8 million, as increased revenues from sales of *System 44*® *Next Generation* were partially offset by revenue declines for Read 180. The current year's success of *System 44*® *Next Generation*, which was released late in fiscal 2013, continues the Company's leading position as a provider of interventive reading technology solutions. Revenues from other products and services declined modestly.

Cost of goods sold increased to $28.1 million, or 29.6% of revenues, in the quarter ended August 31, 2013, compared to $25.7 million, or 32.1% of revenues in the prior period. The modest decrease in Cost of goods sold as a percentage of revenue was primarily due to lower relative royalty and other content costs for newly released products.

Other operating expenses for the quarter ended August 31, 2013 increased by $1.0 million to $30.2 million, compared to $29.2 million in the prior fiscal period. The increase was due to higher commission expense of $1.6 million associated with the increased revenues.

Segment operating income for the quarter ended August 31, 2013 increased by $11.4 million to $36.2 million, compared to $24.8 million in the prior fiscal period. The segment benefited from the anticipated strong demand for the new products referred to above. These new products:

- broaden the Company’s curriculum offering and market presence, notably in mathematics;
- assist educators in the implementation of Common Core State Standards; and
- enable more technology solutions to be incorporated in the classroom.

SCHOLASTIC CORPORATION

Item 2. MD&A

Classroom and Supplemental Materials Publishing

($ amounts in millions)	Three months ended August 31, 2013	August 31, 2012	$ change	% change
Revenues	$ 37.8	$ 37.9	$ (0.1)	-0.3 %
Cost of goods sold (exclusive of depreciation)	15.7	16.6	(0.9)	-5.4 %
Other operating expenses *	23.4	23.5	(0.1)	-0.4 %
Depreciation and amortization	0.3	0.4	(0.1)	-25.0 %
Operating income (loss)	$ (1.6)	$ (2.6)	$ 1.0	
Operating margin	—	—		

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

Revenues for the quarter ended August 31, 2013 of $37.8 million were flat compared to prior period revenues of $37.9 million. The current period experienced higher revenues of $2.1 million for classroom books driven by demand for the Company's customized digital and print institutional packages. Offsetting this was decreased revenues from classroom magazines related to the absence of election year materials of $1.0 million and lower sales of branded library products of $1.0 million.

Cost of goods sold for the quarter ended August 31, 2013 was $15.7 million, or 41.5% of revenue, compared to $16.6 million, or 43.8% of revenue, in the prior fiscal period. Reduced postage expense accounted for most of the decline.

Other operating expenses for the quarter ended August 31, 2013 were $23.4 million, and were flat to the prior period.

Segment operating loss for the quarter ended August 31, 2013 improved modestly to $1.6 million, compared to an operating loss of $2.6 million in the prior fiscal period. The classroom magazines business continues to experience improved circulation as cus