SCHOLASTIC CORP
Form 10-Q
September 26, 2014

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, 2014	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, 2014
Common Stock, $.01 par value	31,068,729
Class A Stock, $.01 par value	1,656,200

SCHOLASTIC CORPORATION

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PART I - FINANCIAL INFORMATION

Item 1. Financial Statements

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

	Three months ended	
	August 31, 2014	August 31, 2013
Revenues	$283.8	$276.3
Operating costs and expenses:		
Cost of goods sold	150.2	137.9
Selling, general and administrative expenses (exclusive of depreciation and amortization)	173.5	168.4
Depreciation and amortization	13.5	15.9
Total operating costs and expenses	337.2	322.2
Operating income (loss)	(53.4)	(45.9)
Interest expense, net	(0.9)	(1.9)
Earnings (loss) from continuing operations before income taxes	(54.3)	(47.8)
Provision (benefit) for income taxes	(20.3)	(17.7)
Earnings (loss) from continuing operations	(34.0)	(30.1)
Earnings (loss) from discontinued operations, net of tax	(0.1)	0.2
Net income (loss)	$(34.1)	$(29.9)
Basic and diluted earnings (loss) per Share of Class A and Common Stock		
Basic:		
Earnings (loss) from continuing operations	$(1.05)	$(0.94)
Earnings (loss) from discontinued operations, net of tax	$(0.00)	$0.00
Net income (loss)	$(1.05)	$(0.94)
Diluted:		
Earnings (loss) from continuing operations	$(1.05)	$(0.94)
Earnings (loss) from discontinued operations, net of tax	$(0.00)	$0.00
Net income (loss)	$(1.05)	$(0.94)
Dividends declared per class A and common share	$0.150	$0.125

See accompanying notes

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

	Three months ended	
	August 31, 2014	August 31, 2013
Net income (loss)	$(34.1)	$(29.9)
Other comprehensive income (loss), net:		
Foreign currency translation adjustments	0.5	(5.6)
Pension and post-retirement adjustments:		
Amortization of prior service cost (credit)	(0.0)	(0.1)
Amortization of unrecognized gain (loss) included in net periodic cost	0.5	0.9
Total other comprehensive income (loss)	$1.0	$(4.8)
Comprehensive income (loss)	$(33.1)	$(34.7)

See accompanying notes

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

	August 31, 2014	May 31, 2014	August 31, 2013
ASSETS			
Current Assets:			
Cash and cash equivalents	$15.4	$20.9	$15.8
Accounts receivable, net	239.1	253.3	211.6
Inventories, net	390.5	272.7	374.6
Deferred income taxes	81.0	81.0	79.2
Prepaid expenses and other current assets	98.0	35.1	107.1
Current assets of discontinued operations	0.4	0.4	0.4
Total current assets	824.4	663.4	788.7
Property, plant and equipment, net	461.1	467.0	302.6
Prepublication costs	141.9	143.1	148.9
Royalty advances, net	39.4	38.5	37.9
Production costs	4.8	4.5	2.3
Goodwill	144.5	144.5	157.9
Other intangibles	12.2	12.2	14.0
Noncurrent deferred income taxes	4.4	4.1	14.7
Other assets and deferred charges	48.1	51.2	39.4
Total assets	$1,680.8	$1,528.5	$1,506.4
LIABILITIES AND STOCKHOLDERS' EQUITY			
Current Liabilities:			
Lines of credit, short-term debt and current portion of long-term debt	$13.9	$15.8	$29.2
Capital lease obligations	0.0	0.0	0.1
Accounts payable	232.7	145.3	207.3
Accrued royalties	47.4	34.1	45.5
Deferred revenue	87.7	48.7	81.9
Other accrued expenses	158.0	184.7	160.0
Current liabilities of discontinued operations	1.1	1.1	1.3
Total current liabilities	540.8	429.7	525.3
Noncurrent Liabilities:			
Long-term debt	185.0	120.0	—
Capital lease obligations	0.0	0.0	57.7
Other noncurrent liabilities	62.3	63.4	95.5
Total noncurrent liabilities	247.3	183.4	153.2
Commitments and Contingencies	—	—	—
Stockholders' Equity:			
Preferred Stock, $1.00 par value	—	—	—
Class A Stock, $.01 par value	0.0	0.0	0.0
Common Stock, $.01 par value	0.4	0.4	0.4
Additional paid-in capital	582.3	580.8	581.2

Accumulated other comprehensive income (loss)	(54.2)	(55.2)	(70.2)
Retained earnings	726.1	765.1	705.3
Treasury stock at cost	(361.9)	(375.7)	(388.8)
Total stockholders' equity	892.7	915.4	827.9
Total liabilities and stockholders' equity	$1,680.8	$1,528.5	$1,506.4

See accompanying notes

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

	Three months ended	
	August 31, 2014	August 31, 2013
Cash flows - operating activities:		
Net income (loss)	$(34.1)	$(29.9)
Earnings (loss) from discontinued operations, net of tax	(0.1)	0.2
Earnings (loss) from continuing operations	(34.0)	(30.1)
Adjustments to reconcile earnings (loss) from continuing operations to net cash provided by (used in) operating activities of continuing operations:		
Provision for losses on accounts receivable	2.2	1.4
Provision for losses on inventory	5.3	4.8
Provision for losses on royalty advances	1.0	1.0
Amortization of prepublication and production costs	14.5	13.3
Depreciation and amortization	13.5	16.3
Amortization of pension and post-retirement actuarial gains and losses	0.7	1.0
Deferred income taxes	(0.3)	—
Stock-based compensation	1.6	1.1
Income from equity investments	(0.7)	(0.7)
Changes in assets and liabilities:		
Accounts receivable	12.5	(1.1)
Inventories	(123.1)	(105.0)
Prepaid expenses and other current assets	(52.0)	(40.7)
Deferred promotion costs	(6.1)	(5.5)
Royalty advances	(2.0)	(1.8)
Accounts payable	87.5	52.5
Other accrued expenses	(25.8)	(18.3)
Accrued royalties	13.4	11.3
Deferred revenue	38.9	34.0
Pension and post-retirement liabilities	(1.4)	(4.1)
Other noncurrent liabilities	(0.3)	(1.3)
Other, net	(1.1)	0.9
Total adjustments	(21.7)	(40.9)
Net cash provided by (used in) operating activities of continuing operations	(55.7)	(71.0)
Net cash provided by (used in) operating activities of discontinued operations	(0.1)	0.2
Net cash provided by (used in) operating activities	(55.8)	(70.8)
Cash flows - investing activities:		
Prepublication and production expenditures	(13.8)	(15.7)
Additions to property, plant and equipment	(7.3)	(7.3)
Acquisition related payments	(0.6)	(1.0)
Net cash provided by (used in) investing activities of continuing operations	(21.7)	(24.0)
Net cash provided by (used in) investing activities	(21.7)	(24.0)

See accompanying notes

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

	Three months ended	
	August 31, 2014	August 31, 2013
Cash flows - financing activities:		
Net borrowings under credit agreement and revolving loan	65.0	15.0
Borrowings under lines of credit	59.7	35.0
Repayments of lines of credit	(61.5)	(22.9)
Repayment of capital lease obligations	(0.0)	(0.1)
Reacquisition of common stock	—	(0.4)
Proceeds pursuant to stock-based compensation plans	12.6	1.3
Payment of dividends	(4.8)	(4.0)
Other	1.0	0.1
Net cash provided by (used in) financing activities of continuing operations	72.0	24.0
Effect of exchange rate changes on cash and cash equivalents	0.0	(0.8)
Net increase (decrease) in cash and cash equivalents	(5.5)	(71.6)
Cash and cash equivalents at beginning of period	20.9	87.4
Cash and cash equivalents at end of period	$15.4	$15.8

See accompanying notes

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

1. Basis of Presentation

Principles of consolidation

The accompanying condensed consolidated financial statements include the accounts of Scholastic Corporation (the "Corporation") and all wholly-owned and majority-owned subsidiaries (collectively, "Scholastic" or the "Company"). Intercompany transactions are eliminated in consolidation. These financial statements have not been audited but reflect those adjustments consisting of normal recurring items that management considers necessary for a fair presentation of financial position, results of operations, comprehensive income (loss) and cash flows. These financial statements should be read in conjunction with the consolidated financial statements and related notes in the Annual Report on Form 10-K for the fiscal year ended May 31, 2014 (the "Annual Report").

The Company's fiscal year is not a calendar year. Accordingly, references in this document to fiscal 2014 relate to the twelve-month period ended May 31, 2014.

Seasonality

The Company's Children's Book Publishing and Distribution school-based book fair and book club 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. Trade sales can vary through the year due to varying release dates of published titles. The Company generally experiences a loss from operations in the first and third quarters of each fiscal year.

Use of estimates

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

- Accounts receivable, returns and allowances
- Pension and 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 for assessment and measurement, intangibles and other long-lived assets and investments.

Restricted Cash

The condensed consolidated balance sheets include restricted cash of $0.2, $0.3 and $0.2 at August 31, 2014, May 31, 2014 and August 31, 2013, respectively, which is reported in “Other current assets.”

New Accounting Pronouncements

In June 2014, the Financial Accounting Standards Board (the "FASB") issued an update to the authoritative guidance related to stock compensation to resolve diverse accounting treatments of awards linked to performance targets and how to account for

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

share-based payment awards that require a specific performance target to be achieved for employees to become eligible to vest in the awards.

The amendments require that a performance target that affects vesting, and that could be achieved after the requisite service period, be treated as a performance condition. A reporting entity should apply existing guidance as it relates to awards with performance conditions that affect vesting to account for such awards. The performance target should not be reflected in estimating the grant-date fair value of the award. Compensation cost should be recognized in the period in which it becomes probable that the performance target will be achieved and should represent the compensation cost attributable to the periods for which the service has already been rendered. If it becomes probable that the performance target will be achieved before the end of the requisite service period, the remaining unrecognized compensation cost should be recognized prospectively over the remaining requisite service period. The total amount of compensation should reflect the number of awards that are expected to vest and should be adjusted to reflect those awards that ultimately vest. The requisite service period ends when the employee can cease rendering service and still be eligible to vest in the award if the performance target is achieved.

The amendments in this update are effective for annual periods and interim periods within those annual periods beginning after December 15, 2015. Earlier adoption is permitted. The Company is evaluating the impact that this update will have on its consolidated financial position, results of operations and cash flows.

In May 2014, the FASB announced that it is amending the FASB Accounting Standards Codification by issuing Topic 606, Revenue from Contracts with Customers, at the same time as the International Accounting Standards Board (the "IASB") is issuing International Financial Reporting Standards 15, Revenue from Contracts with Customers. The issuance of this authoritative guidance completes the joint effort by the FASB and the IASB to clarify the principles for recognizing revenue and improve financial reporting by creating common revenue recognition guidance.

The authoritative guidance provides that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services.

To achieve that core principle, an entity should apply the following steps:

- Step 1: Identify the contract(s) with a customer.
- Step 2: Identify the performance obligations in the contract.
- Step 3: Determine the transaction price.
- Step 4: Allocate the transaction price to the performance obligations in the contract.
- Step 5: Recognize revenue when (or as) the entity satisfies a performance obligation.

Additionally, the guidance requires improved disclosures to help users of financial statements better understand the nature, amount, timing, and uncertainty of revenue that is recognized. The update provides guidance for transactions that are not otherwise addressed comprehensively in authoritative guidance (for example, service revenue, contract modifications, and licenses of intellectual property). The amendments in this update are to be applied on a retrospective basis, utilizing one of two different methodologies. The amendments in this update are effective for annual reporting periods beginning after December 15, 2016, including interim periods within that reporting period. Early application is not permitted. The Company is evaluating the impact of this update on its consolidated financial position, results of operations and cash flows.

2. 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 its book clubs and book fairs in its school channels and through the trade channel. This segment is comprised of three operating segments.

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

- 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.

	Children's Book Publishing and Distribution	Educational Technology and Services	Classroom and Supplemental Materials Publishing	Media, Licensing and Advertising	Overhead [1]	Total Domestic	International	Total
Three months ended August 31, 2014								
Revenues	$ 54.7	$ 89.4	$ 42.8	$ 10.6	$—	$ 197.5	$ 86.3	$ 283.8
Bad debt expense	0.5	0.3	—	0.2	—	1.0	1.2	2.2
Depreciation and amortization [2]	7.9	7.5	2.9	1.6	5.7	25.6	2.4	28.0
Segment operating income (loss)	(60.5)	30.3	(0.5)	(3.9)	(16.9)	(51.5)	(1.9)	(53.4)
Segment assets at 8/31/14	467.2	208.3	161.8	28.7	546.7	1,412.7	267.7	1,680.4
Goodwill at 8/31/14	40.9	22.7	65.4	5.4	—	134.4	10.1	144.5
Expenditures for long-lived assets including royalty advances	15.8	6.0	1.7	1.8	0.9	26.2	3.1	29.3
Long-lived assets at 8/31/14	146.8	117.8	90.4	14.5	386.4	755.9	66.8	822.7
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
	8.0	6.3	2.6	0.6	10.0	27.5	1.7	$ 29.2

Depreciation and amortization [2]								
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

(1) 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

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

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.

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

3. Debt

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

	August 31, 2014	May 31, 2014	August 31, 2013
Loan Agreement:			
Revolving Loan (interest rates of 1.4%, 1.3% and 1.4%, respectively)	$185.0	$120.0	$15.0
Unsecured lines of credit (weighted average interest rates of 2.3%, 2.3% and 3.6%, respectively)	$13.9	$15.8	$14.2
Total debt	$198.9	$135.8	$29.2
Less lines of credit, short-term debt and current portion of long-term debt	(13.9)	(15.8)	(29.2)
Total long-term debt	$185.0	$120.0	$—

The fair value of the Company's debt approximates the carrying value for all periods presented.

The following table sets forth the maturities of the Company's debt obligations as of August 31, 2014, for the twelve-month periods ending August 31,

2015	$13.9
2016	$—
2017	$—
2018	$185.0
Total debt	$198.9

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, 2014, 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, 2014, the facility fee rate was 0.20%.

As of August 31, 2014, the Company's borrowings under the Loan Agreement totaled $185.0. The Company initially incurred $120.0 of this obligation in the third quarter of fiscal 2014 to partially finance the purchase of the land and building of a previously leased property at 555 Broadway in Manhattan. In the current fiscal quarter, the Company had net borrowings of $65.0. While this obligation is not due until the December 5, 2017 maturity date, the Company may, from time to time, make payments to reduce this obligation when cash from operations becomes available.

At August 31, 2014, the Company had open standby letters of credit totaling $0.4 under the Loan Agreement.

The Loan Agreement contains certain covenants, including interest coverage and leverage ratio tests and certain limitations on
the amount of dividends and other distributions, and at August 31, 2014, the Company was in compliance with these covenants.

Lines of Credit

As of August 31, 2014, the Company has domestic unsecured money market bid rate credit lines totaling $25.0. Outstanding borrowings under these credit lines were $7.5, $10.0 and $5.9 at August 31, 2014, May 31, 2014 and August 31, 2013, respectively. At August 31, 2014, the Company had open standby letters of credit totaling $4.9 under the domestic unsecured money market bid rate credit lines. As of August 31, 2014 availability under these unsecured money market bid rate credit lines totaled $12.6. 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, 2014, the Company has equivalent local currency credit lines totaling $48.1. Outstanding borrowings under these lines of credit totaled $6.4, $5.8 and $8.3 at August 31, 2014, May 31, 2014 and August 31, 2013, respectively. As of August 31, 2014 the equivalent amounts available totaled $41.7, 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.

4. 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.

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

5. 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, 2014 and 2013, respectively:

	Three months ended	
	August 31, 2014	August 31, 2013
Earnings (loss) from continuing operations attributable to Class A and Common Shares	$(34.0)	$(30.1)
Earnings (loss) from discontinued operations attributable to Class A and Common Shares, net of tax	(0.1)	0.2
Net income (loss) attributable to Class A and Common Shares	$(34.1)	$(29.9)
Weighted average Shares of Class A Stock and Common Stock outstanding for basic earnings (loss) per share (in millions)	32.4	31.8
Dilutive effect of Class A Stock and Common Stock potentially issuable pursuant to stock-based compensation plans (in millions)	*	*
Adjusted weighted average Shares of Class A Stock and Common Stock outstanding for diluted earnings (loss) per share (in millions)	*	*
Earnings (loss) per share of Class A Stock and Common Stock:		
Basic earnings (loss) per share:		
Earnings (loss) from continuing operations	$(1.05)	$(0.94)
Earnings (loss) from discontinued operations, net of tax	$(0.00)	$0.00
Net income (loss)	$(1.05)	$(0.94)
Diluted earnings (loss) per share:		
Earnings (loss) from continuing operations	$(1.05)	$(0.94)
Earnings (loss) from discontinued operations, net of tax	$(0.00)	$0.00
Net income (loss)	$(1.05)	$(0.94)

* In each of the three month periods ended August 31, 2014 and 2013, the Company experienced a Loss from continuing operations and therefore did not report any dilutive share impact.

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

	August 31, 2014	August 31, 2013
Options outstanding pursuant to stock-based compensation plans (in millions)	4.0	4.0

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 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, 2014, $13.4 remains available for future purchases of common shares under the current repurchase authorization of the Board of Directors. See Note 10, “Treasury Stock,” for a more complete description of the Company’s share buy-back program.

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6. Goodwill and Other Intangibles

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

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

	Three months ended August 31, 2014	Twelve months ended May 31, 2014	Three months ended August 31, 2013
Gross beginning balance	$178.7	$178.7	$178.7
Accumulated impairment	(34.2)	(20.8)	(20.8)
Beginning balance	$144.5	$157.9	$157.9
Impairment charge	—	(13.4)	—
Foreign currency translation	0.0	0.0	0.0
Other	—	—	—
Gross ending balance	$178.7	$178.7	$178.7
Accumulated impairment	(34.2)	(34.2)	(20.8)
Ending balance	$144.5	$144.5	$157.9

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

	Three months ended August 31, 2014	Twelve months ended May 31, 2014	Three months ended August 31, 2013
Beginning balance - customer lists	$2.4	$3.4	$3.4
Additions	0.6	—	—
Amortization expense	(0.2)	(1.0)	(0.2)
Foreign currency translation	0.0	0.0	0.0
Customer lists, net of accumulated amortization of $3.5, $3.3 and $2.5, respectively	$2.8	$2.4	$3.2
Beginning balance - other intangibles	$7.6	$9.2	$9.2
Additions	—	—	—
Amortization expense	(0.4)	(1.4)	(0.4)
Foreign currency translation	0.0	0.0	0.0
Other	—	(0.2)	—
Other intangibles, net of accumulated amortization of $13.8, $13.4 and $12.4, respectively	$7.2	$7.6	$8.8
Total other intangibles subject to amortization	$10.0	$10.0	$12.0
Trademarks and other	$2.2	$2.2	$2.0
Total other intangibles not subject to amortization	$2.2	$2.2	$2.0
Total other intangibles	$12.2	$12.2	$14.0

Amortization expense for Total other intangibles was $0.6 and $0.6 for the three months ended August 31, 2014 and 2013, 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 approximately 6.5 years.

7. Investments

Included in “Other assets and deferred charges” on the Company’s condensed consolidated balance sheets were investments of $18.8, $18.4 and $21.9 at August 31, 2014, May 31, 2014 and August 31, 2013, respectively.

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In the first quarter of fiscal 2014, the Company acquired a 20% interest in a software development business for $1.0 in cash, which was accounted for using the equity method of accounting. The investment was determined to be other than temporarily impaired and the Company recognized a loss of $1.0 in the fourth quarter of the fiscal year ended May 31, 2014.

The Company owns a 15% non-controlling interest in a book distribution business located in the UK, which was accounted for as a cost-basis investment. A decline in results for this operation led management to determine that this investment was other than temporarily impaired and the Company recognized a loss of $4.8 in respect of this investment in the fiscal year ended May 31, 2014. On September 12, 2014, the Company sold its 15% interest in this business for approximately $0.7.

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 $0.7 for the three months ended August 31, 2014 and 2013, respectively.

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

	August 31, 2014	May 31, 2014	August 31, 2013
Cost method investments:			
UK - based	$—	$—	$4.7
Total cost method investments	$—	$—	$4.7
Equity method investments:			
UK - based	$18.8	$18.3	$16.2
Other	0.0	0.1	1.0
Total equity method investments	$18.8	$18.4	$17.2
Total	$18.8	$18.4	$21.9

8. 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		Post-Retirement Benefits	
	Three months ended August 31,		Three months ended August 31,	
	2014	2013	2014	2013
Components of net periodic benefit (credit) cost:				
Service cost	$—	$—	$0.0	$0.0
Interest cost	1.7	1.8	0.3	0.3
Expected return on assets	(2.5)	(3.1)	—	—

Net amortization of prior service credit	—	—	(0.0)	(0.0)
Amortization of (gain) loss	0.3	0.4	0.4	0.6
Net periodic benefit (credit) cost	$(0.5)	$(0.9)	$0.7	$0.9

The Company’s funding practice with respect to the Pension Plans is to contribute on an annual basis at least the minimum amounts required by applicable laws. For the three months ended August 31, 2014, the Company made no contribution to the the U.S. Pension Plan and contributed $0.3 to the UK Pension Plan.

The Company expects, based on actuarial calculations, to contribute cash of approximately $1.4 to the Pension Plans for the fiscal year ending May 31, 2015.

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In the current fiscal year, the U.S. Pension Plan's funding status is sufficient to allow participants to receive "lump sum" payments at the participant's request. If these requests exceed $5.2 in the current fiscal year, the Company will recognize a partial settlement of the plan.

9. 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, 2014	August 31, 2013
Stock option expense	$0.8	$0.2
Restricted stock unit expense	0.7	0.8
Management stock purchase plan	0.0	0.0
Employee stock purchase plan	0.1	0.1
Total stock-based compensation expense	$1.6	$1.1

During each of the three month periods ended August 31, 2014 and 2013, respectively, approximately 0.5 million and 0.4 million shares of Common Stock were issued by the Corporation pursuant to its stock-based compensation plans.

10. 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	[a]
Less repurchases made under this authorization	(30.6	)
Remaining Board authorization at August 31, 2014	$13.4	

[a] Represents the remainder of a $200.0 authorization after giving effect to the purchase of 5,199,699 shares at $30.00 per share pursuant to a large share repurchase in the form of a modified Dutch auction tender offer that was completed by the Company on November 3, 2010 for a total cost of $156.0, excluding related fees and expenses.

There were no repurchases of Common Stock made during the first fiscal quarter of 2015. The Company’s repurchase program may be suspended at any time without prior notice.

11. 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

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

The Company's financial assets and liabilities measured at fair value consisted of cash and cash equivalents, debt and foreign currency forward contracts. Cash and cash equivalents are comprised of bank deposits and short-term investments, such as money market funds, the fair value of which is based on quoted market prices, a Level 1 fair value measure. The Company employs Level 2 fair value measurements for the disclosure of the fair value of its various lines of credit. See Note 3, "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 13, "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.

12. 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, exclusive of discrete items and unbenefitted foreign losses, used to calculate the interim tax provision is expected to be 39.0% resulting in a tax rate, inclusive of discrete items and unbenefitted foreign losses, of 37.3% for the three month period ended August 31, 2014.

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, 2011, 2012 and 2013.

The Company is currently under audit by New York State for fiscal years ended May 31, 2009, 2010, 2011 and 2012 and by New York City for fiscal years ended May 31, 2008, 2009 and 2010. 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. The Company assesses sales tax contingencies for each jurisdiction in which it operates, considering all relevant facts including statutes, regulations, case law and experience. 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.

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13. 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 losses of $0.3 and unrealized gains of $0.4 were recognized at August 31, 2014 and August 31, 2013, respectively.

14. Other Accrued Expenses

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

	August 31, 2014	May 31, 2014	August 31, 2013
Accrued payroll, payroll taxes and benefits	$40.4	$41.7	$40.3
Accrued bonus and commissions	23.3	36.9	20.7
Accrued other taxes	23.2	27.5	24.4
Accrued advertising and promotions	29.8	35.6	33.1
Accrued income taxes	3.5	4.7	4.4
Accrued insurance	8.6	8.3	8.9
Other accrued expenses	29.2	30.0	28.2
Total accrued expenses	$158.0	$184.7	$160.0

15. Subsequent Events

The Company’s Board of Directors declared a quarterly cash dividend of $0.15 per share on the Company’s Class A and Common Stock for the second quarter of fiscal 2015. The dividend is payable on December 15, 2014 to shareholders of record as of the close of business on October 31, 2014.

On September 12, 2014, the Company sold its interest in a cost method investment for approximately $0.7. (see Note 7, "Investments").

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Overview and Outlook

Revenue for the quarter ended August 31, 2014 was $283.8 million, compared to $276.3 million in the prior fiscal year quarter, an increase of $7.5 million, or 3%. The Company reported first quarter loss per share of $1.05, versus a loss per share of $0.94 in the prior fiscal year quarter. Operating results for the quarter ended August 31, 2014 included expenses of $1.2 million related to severance as a result of the Company’s cost reduction programs, while the prior fiscal year quarter included $2.0 million of similar expenses. The Company typically records a loss in its first fiscal quarter, when most U.S. schools are not in session.

In the quarter ended August 31, 2014, revenue improvements in guided reading and classroom book collections, educational technology math products and programs, international channels and school book clubs and fairs were partially offset by decreased sales of the Company’s reading intervention programs. While the first quarter is not significant for book clubs and book fair operations since most schools are not in session, the combined 20% revenue growth of these operations reflects a continuing positive trend. In the Educational Technology and Services segment, most of the revenue decline compared to the prior fiscal year quarter came from a challenging comparison due to the launch of a new slate of products in the prior fiscal year quarter, including a significant delivery of the Company’s Common Core Code X® middle school language arts print curriculum for New York City. Operating loss increased $7.5 million, or 16% compared to the prior fiscal year quarter, primarily due to lower results in the Company’s Educational Technology and Services segment, including higher amortization costs related to the new programs, and slightly higher losses in certain international markets, as well as in the Company's media operations due to higher amortization costs for new programming.

In the Company’s Educational Technology and Services segment, the Company’s sales organization intensified sales efforts on core reading and mathematics intervention programs, including services to support the professional growth of teachers. The Company believes the strong results in sales of classroom books and guided reading products evidences that schools are expanding their use of customized reading programs for grades K–5, while encouraging independent reading and the use of children’s literature programs, which are the hallmark of Scholastic. In addition, school-based book clubs and book fair operations are also benefiting from this renewed concentration on independent reading as a gateway to improved student motivation and achievement.

Results of Operations – Consolidated

Revenues for the quarter ended August 31, 2014 increased by $7.5 million to $283.8 million, compared to $276.3 million in the prior fiscal year quarter. The increase was driven by increased sales of guided reading and classroom book collections, educational technology math products and program solutions, international channels and school book clubs and fairs. These increases were partially offset by lower sales of the Company’s education technology reading programs, due to a challenging comparison with a strong prior fiscal year quarter.

Components of Cost of goods sold for the three months ended August 31, 2014 and 2013 are as follows:

	Three months ended August 31,					
	2014			2013		
	$	% of Revenue		$	% of Revenue	
Product, service and production costs	$73.9	26.0	%	$66.6	24.1	%
Royalty costs	16.4	5.8	%	17.4	6.3	%
Prepublication and production amortization	14.4	5.1	%	13.1	4.7	%
Postage, freight, shipping, fulfillment and other	45.5	16.0	%	40.8	14.8	%
Total	$150.2	52.9	%	$137.9	49.9	%

Cost of goods sold as a percentage of revenue for the quarter ended August 31, 2014 increased to 52.9%, compared to 49.9% in the prior fiscal year quarter, due to higher amortization of technology products and programming costs of $1.9 million, increased sales of low-margin media products in the Company’s Australia operations, higher overall costs in Canada and an increase in the relative sales of printed education materials compared to technology products in the Company’s Educational Technology and Services segment. Also contributing to the increase were increased costs in the Company’s growing classroom books operations as a result of product mix compared to the prior fiscal year quarter.

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Selling, general and administrative expenses in the quarter ended August 31, 2014 increased $5.1 million to $173.5 million, compared to $168.4 million in the prior fiscal year quarter. Higher employee related, bad debt and other operating expenses across the Company's foreign operations of $3.4 million, combined with higher domestic employee-related expense of $2.0 million, drove the increase. This was partially offset by lower severance of $0.8 million related to restructuring activities.

For the fiscal quarter ended August 31, 2014, net interest expense decreased to $0.9 million from $1.9 million, due to the March 2014 settlement of the capital leases associated with the purchase of 555 Broadway, New York, NY.

The Company's effective tax rate for the first quarter of fiscal 2015 was 37.3%, compared to 37.0% in the prior fiscal year quarter. For the full year, the Company expects an effective tax rate, exclusive of discrete items of approximately 41%.

Loss from continuing operations for the quarter ended August 31, 2014 increased by $3.9 million to $34.0 million, compared to $30.1 million in the prior fiscal year quarter. Loss from continuing operations per share of Class A Stock and Common Stock was $1.05 in the quarter ended August 31, 2014, compared to $0.94 in the prior fiscal year quarter.
Loss from discontinued operations, net of tax, for the quarter ended August 31, 2014 was $0.1 million, compared to earnings from discontinued operations, net of tax, of $0.2 million in the prior fiscal year quarter. The Company did not discontinue any operations in the first quarter of fiscal 2015.

Net loss for the quarter ended August 31, 2014 increased by $4.2 million to $34.1 million, compared to $29.9 million in the prior fiscal year quarter. Net loss per share of Class A Stock and Common Stock was $1.05 in the quarter ended August 31, 2014, compared to $0.94 in the prior fiscal year quarter.

Results of Continuing Operations

Children's Book Publishing and Distribution

	Three months ended August 31,			
($ amounts in millions)	2014	2013	$ change	% change
Revenues	$54.7	$54.6	$0.1	0.2 %
Cost of goods sold	35.7	36.6	(0.9)	-2.5 %
Other operating expenses *	79.5	79.5	—	— %
Operating income (loss)	$(60.5)	$(61.5)	$1.0	
Operating margin	-	-		

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

Revenues for the quarter ended August 31, 2014 were relatively flat at $54.7 million, compared to $54.6 million in the prior fiscal year quarter. Trade channel revenues declined $3.2 million as the success of the Minecraft handbook series, sales of the Spirit Animals™ multiplatform series, and of Sisters by Raina Telgemeier and sales of other front list titles were more than offset by lower sales of the Hunger Games trilogy and Harry Potter. Strong Harry Potter sales in the prior year fiscal quarter were driven by the prior year release of new cover art editions. Offsetting the decline in the trade channel were improved results from the Company's school channels, as the Company's book clubs revenues increased $2.2 million and the Company's book fairs revenues increased $1.1 million. While revenues from these channels are not significant in the first quarter as most schools are not in session, the results reflected the strong momentum these channels experienced in the second half of the prior school year.

Cost of goods sold for the quarter ended August 31, 2014 was $35.7 million, or 65% of revenues, compared to $36.6 million, or 67% of revenues, in the prior fiscal year quarter. The modest decrease was driven by lower content costs partially offset by higher sales of lower margin products in the trade channel.

Other operating expenses were flat at $79.5 million for each of the quarters ended August 31, 2014 and August 31, 2013.

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Segment operating loss decreased to $60.5 million for the quarter ended August 31, 2014, compared to a loss of $61.5 million in the prior fiscal year quarter. The segment generally experiences a loss in the first quarter as the school channels are incurring expenses for the upcoming school year, but do not yet have significant revenues.

Educational Technology and Services

	Three months ended August 31,			
($ amounts in millions)	2014	2013	$ change	% change
Revenues	$89.4	$94.8	$(5.4)	-5.7%
Cost of goods sold	29.9	28.1	1.8	6.4%
Other operating expenses *	29.2	30.5	(1.3)	-4.3%
Operating income (loss)	$30.3	$36.2	$(5.9)	
Operating margin	33.9%	38.2%		

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

Revenues for the quarter ended August 31, 2014 decreased by $5.4 million to $89.4 million, compared to $94.8 million in the prior fiscal year quarter. Sales of Read 180® and System 44®, the Company's intervention reading technology programs, declined $2.8 million from the strong prior year quarter, which benefited from the release of System 44 Next Generation late in fiscal 2013. The first quarter of fiscal 2015 did not have the increased demand associated with new product launches, whereas the prior fiscal year quarter benefitted from the launches of iRead™ and Common Core Code X®, sales of which decreased by $2.9 million compared to the prior year fiscal quarter, which included a significant delivery of the Company's Common Core Code X comprehensive English Language Arts curriculum to New York City's Board of Education. Other literacy products, including legacy and smaller programs, also declined in the first quarter of fiscal 2015 compared to the prior fiscal year quarter. Partially offsetting these declines were revenues from the segment's continued expansion of its presence in mathematics solutions, such as Math 180, Do The Math® and Scholastic Math Inventory™, the Company's computer-adaptive mathematics assessment program, which collectively increased $2.1 million in the fiscal quarter ended August 31, 2014 compared to the prior fiscal year quarter.

Cost of goods sold for the quarter ended August 31, 2014 was $29.9 million, or 33% of revenues, compared to $28.1 million, or 30% of revenues, in the prior fiscal year quarter. The increase was primarily due to higher amortization of prepublication expenses of $0.9 million associated with newer products and a higher percentage of revenues from print products, which carry higher variable costs and higher costs to deliver services revenue.

Other operating expenses for the quarter ended August 31, 2014 were $29.2 million, compared to $30.5 million in the prior fiscal year quarter. The decline was due to lower commission expense associated with lower product revenues.

Operating income decreased by $5.9 million in the fiscal quarter ended August 31, 2014 driven by the decrease in revenues, higher amortization and a higher percentage of revenues derived from print materials. The segment's profitability is driven by continued demand for innovative educational technology solutions, the availability of federal, state and local funding for educational resources, and the timing of product releases. In the first fiscal quarter of 2015, the absence of new product launches compared to the high number of Company products launched in the prior fiscal year quarter resulted in the lower comparable profitability.

Classroom and Supplemental Materials Publishing

	Three months ended August 31,			
($ amounts in millions)	2014	2013	$ change	% change

Revenues	$42.8	$37.8	$5.0	13.2	%
Cost of goods sold	18.6	15.7	2.9	18.5	%
Other operating expenses *	24.7	23.7	1.0	4.2	%
Operating income (loss)	$(0.5)	$(1.6)	$1.1		
Operating margin	-	-			

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

Revenues for the quarter ended August 31, 2014 increased by $5.0 million to $42.8 million, compared to $37.8 million in the prior fiscal year quarter. As a result of the demand for independent reading materials, revenues from classroom books and literacy initiatives, including guided reading programs such as the Guided Reading Blue 2nd Edition and summer reading programs, increased $4.3 million compared to the prior fiscal year quarter. Revenues from sales of library publishing products also increased, while classroom magazine revenues are not significant for the first fiscal quarter, as most schools are not in session.

Cost of goods sold for the quarter ended August 31, 2014 was $18.6 million, or 43% of revenues, compared to $15.7 million, or 42% of revenues, in the prior fiscal year quarter. The modest relative increase was a result of classroom and professional book product mix sold in the first quarter of fiscal 2015 compared to the prior fiscal year quarter.

Other operating expenses for the quarter ended August 31, 2014 were $24.7 million, compared to $23.7 million in the prior fiscal year quarter. The increase was attributable to higher expenses associated with the classroom magazines operations.

Operating losses in the fiscal quarter ended August 31, 2014 decreased $1.1 million compared to the prior fiscal year quarter. The segment generally experiences a loss in the first fiscal quarter as the classroom magazines operations are incurring expenses for the upcoming school year, but do not yet have significant revenues. The improvement is entirely due to the revenue increases mentioned above, partially offset by higher costs associated with the growing classroom magazines business.

Media, Licensing and Advertising

	Three months ended August 31,			
($ amounts in millions)	2014	2013	$ change	% change
Revenues	$10.6	$10.4	$0.2	1.9 %
Cost of goods sold	5.7	4.5	1.2	26.7 %
Other operating expenses *	8.8	7.8	1.0	12.8 %
Operating income (loss)	$(3.9)	$(1.9)	$(2.0)	
Operating margin	-	-		

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

Revenues for the quarter ended August 31, 2014 were relatively flat at $10.6 million compared to $10.4 million in the prior fiscal year quarter. Higher sales of the Company’s original animated programming WordGirl® and Astroblast!™ were partially offset by lower sales of interactive products and media content to streaming platforms. Sales of Company programming, which increased $0.6 million in the first fiscal quarter of 2015 compared to the prior fiscal year quarter, tend to vary depending upon programming delivered and new agreements entered into during the quarter. In the fiscal quarter ended August 31, 2014, the Company delivered new programming for WordGirl® and Astroblast!™, while in the prior fiscal year quarter the Company entered into arrangements for delivery of evergreen content with streaming partners such as Netflix. Sales of interactive products were down in the first quarter of 2015, consistent with the ongoing trend, driven by continued decreased demand for Leapster products.

Cost of goods sold for the quarter ended August 31, 2014 was $5.7 million, or 54% of revenues, compared to $4.5 million, or 43% of revenues, in the prior fiscal year quarter. The increase was primarily due to higher amortization of new programming costs of $1.0 million.

Other operating expenses for the quarter ended August 31, 2014 were $8.8 million compared to $7.8 million in the prior fiscal year quarter. Higher employee and bad debt expenses drove the increase.

Operating losses in the quarter ended August 31, 2014 increased by $2.0 million compared to the prior fiscal year quarter, as the segment experienced higher amortization costs and other operating expenses compared to flat revenues.

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International

	Three months ended August 31,			
($ amounts in millions)	2014	2013	$ change	% change
Revenues	$86.3	$78.7	$7.6	9.7 %
Cost of goods sold	44.0	38.4	5.6	14.6 %
Other operating expenses *	44.2	41.0	3.2	7.8 %
Operating income (loss)	$(1.9)	$(0.7)	$(1.2)	
Operating margin	-	-		

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

Revenues for the quarter ended August 31, 2014 increased $7.6 million to $86.3 million, compared to $78.7 million in the prior fiscal year quarter. The increase was due to higher local currency revenue of $1.7 million across most major channels of the UK operations, increased sales of media products in Australia of $1.9 million, the favorable impact of foreign exchange rates of $1.3 million, increased export sales of products and rights of $1.8 million and higher direct sales in Malaysia and Thailand.

Cost of goods sold for the quarter ended August 31, 2014 was $44.0 million, or 51% of revenues, compared to $38.4 million, or 49% of revenues, in the prior fiscal year quarter. The relative increase was due to increased sales of media products in Australia, which carry lower gross margins, higher overall costs in Canada, including royalties and inventory costs, and the absence of a high margin education sale in Canada which had occurred in the prior fiscal year quarter.

Other operating expenses for the quarter ended August 31, 2014 were $44.2 million, compared to $41.0 million in the prior fiscal year quarter. The increase was due to higher costs across most of the segment's foreign operations, including higher employee and administrative expenses, as well as bad debt expense in Canada.

Operating loss for the quarter ended August 31, 2014, increased $1.2 million, as improved profitability across major channels of the UK operations was offset by lower profitability in most other markets, including higher costs in Canada.

Overhead

Unallocated overhead expense for the quarter ended August 31, 2014 increased by $0.5 million to $16.9 million, from $16.4 million in the prior fiscal year quarter, primarily due to increased technology investment, partially offset by lower severance expense related to cost savings initiatives of $1.2 million in the quarter ended August 31, 2014, compared to $1.4 million of severance expense in the prior fiscal year quarter.

Seasonality

The Company's Children's Book Publishing and Distribution school-based book fair and book club 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. Trade sales can vary through the year due to varying release dates of published titles. The Company generally experiences a loss from operations in the first and third quarters of each fiscal year.

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

Liquidity and Capital Resources

The Company's cash and cash equivalents totaled $15.4 million at August 31, 2014, $20.9 million at May 31, 2014 and $15.8 million at August 31, 2013. Cash and cash equivalents held by the Company's U.S. operations totaled $2.0 million at August 31, 2014, $2.1 million at May 31, 2014 and $2.8 million at August 31, 2013.

Cash used in operating activities was $55.8 million for the quarter ended August 31, 2014, compared to cash used in operating activities of $70.8 million for the prior fiscal year quarter, representing a decrease in cash used in operating activities of $15.0 million. The Company's book clubs and book fairs operations utilize the first quarter of the fiscal year to build inventory and prepare for the upcoming school year. In the quarter ended August 31, 2014, the Company's book clubs business increased purchases over the prior fiscal year quarter, primarily driving $18.1 million in increased cash usage over the prior fiscal year quarter for inventories. This purchase activity was more than offset by increased balances of current liabilities (payables, accruals and royalties), which resulted in a decreased use of cash of $29.6 million. Much of the increase in current liabilities relates to the increased inventory purchases and higher promotional activities for the upcoming school year, and will be paid in the second quarter of fiscal 2015. Higher deferred revenue balances, primarily in education and classroom magazines, than the prior fiscal year quarter contributed $4.9 million to the improvement in cash used in operations. In the quarter ended August 31, 2014, income tax payments, net of refunds, exceeded the prior fiscal year quarter by $4.9 million, partially offsetting this improvement.

Cash used in investing activities was $21.7 million for the quarter ended August 31, 2014, compared to $24.0 million in the prior fiscal year quarter. Higher prepublication and production costs spending in the prior fiscal year quarter of $1.9 million was driven by development costs in the educational technology business.

Cash provided by financing activities was $72.0 million for the quarter ended August 31, 2014, compared to cash provided in financing activities of $24.0 million for the prior fiscal year quarter. Higher current fiscal quarter borrowing activity was the result of less cash on hand as of May 31, 2014 than as of May 31, 2013. The Company also received $12.6 million of proceeds pursuant to employee stock plans compared to $1.3 million in the prior fiscal year quarter, due to higher share price and options approaching their expiration.

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

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

The Company has maintained, and expects to maintain for the foreseeable future, sufficient liquidity to fund ongoing operations, including working capital requirements, pension contributions, dividends, currently authorized common share repurchases, debt service, planned capital expenditures and other investments. As of August 31, 2014, the Company's primary sources of liquidity consisted of cash and cash equivalents of $15.4 million, cash from operations, and funding available under the Revolving Loan totaling approximately $239.0 million. Additionally, the Company has short-term credit facilities of $54.3 million, net of current borrowings of $13.9 million. The Company may at any time, but in any event not more than once in any calendar year, request that the aggregate availability of credit under the Revolving Loan be increased by an amount of $10.0 million or an integral multiple of $10.0 million (but not to exceed $150.0 million). Accordingly, the Company believes these sources of liquidity are sufficient to finance its ongoing operating needs, as well as its financing and investing activities.

Financing

Loan Agreement

Outstanding borrowings under the Loan Agreement were $185.0 million as of August 31, 2014. For a more complete description of the Company's Loan Agreement, see Note 3 of Notes to Condensed Consolidated Financial Statements-Unaudited in Item 1, "Financial Statements."

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

New Accounting Pronouncements

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

Forward Looking Statements

This Quarterly Report on Form 10-Q contains forward-looking statements. Additional written and oral forward-looking statements may be made by the Company from time to time in Securities and Exchange Commission ("SEC") filings and otherwise. The Company cautions readers that results or expectations expressed by forward-looking statements, including, without limitation, those relating to the Company's future business prospects, plans, ecommerce and digital initiatives, new product introductions, strategies, Common Core State Standards, goals, revenues, improved efficiencies, general costs, manufacturing costs, medical costs, merit pay, operating margins, working capital, liquidity, capital needs, interest costs, the value of its investments, cash flows and income, are subject to risks and uncertainties that could cause actual results to differ materially from those indicated in the forward-looking statements, due to factors including those noted in the Annual Report and other risks and factors identified from time to time in the Company's filings with the SEC.

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

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

The Company conducts its business in various foreign countries, and as such, its cash flows and earnings are subject to fluctuations from changes in foreign currency exchange rates. The Company sells products from its domestic operations to its foreign subsidiaries, creating additional currency risk. The Company manages its exposures to this market risk through internally established procedures and, when deemed appropriate, through the use of short-term forward exchange contracts which were not significant as of August 31, 2014. The Company does not enter into derivative transactions or use other financial instruments for trading or speculative purposes.

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

Additional information relating to the Company's outstanding financial instruments is included in Note 3 of Notes to Condensed Consolidated Financial Statements unaudited in Item 1, "Financial Statements."

The following table sets forth information about the Company's debt instruments as of August 31, 2014:

($ amounts in millions)	Fiscal Year Maturity							
	2015 (1)	2016	2017	2018	2019	Thereafter	Total	Fair Value @ 8/31/14
Debt Obligations								
Lines of Credit and current portion of long-term debt	$13.9	$—	$—	$—	$—	$—	$13.9	$13.9
Average interest rate	2.3 %	—	—	—	—	—		
Long-term debt	$—	$—	$—	$185.0	$—	$—	$185.0	$185.0
Average interest rate	—	—	—	various(2)	—	—		

(1) Fiscal 2015 includes the remaining nine months of the current fiscal year ending May 31, 2015.
(2) The average rate is variable and is anticipated to be that under the Company's Loan Agreement as discussed in Note 3 of Notes to Condensed Consolidated Financial Statements - unaudited in Item 1, "Financial Statements."

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SCHOLASTIC CORPORATION
Item 4. Controls and Procedures

The Chief Executive Officer and the Chief Financial Officer of the Corporation, after conducting an evaluation, together with other members of the Company's management, of the effectiveness of the design and operation of the Corporation's disclosure controls and procedures as of August 31, 2014, have concluded that the Corporation's disclosure controls and procedures were effective to ensure that information required to be disclosed by the Corporation in its reports filed or submitted under the Securities Exchange Act of 1934 is recorded, processed, summarized, and reported within the time periods specified in the rules and forms of the SEC and accumulated and communicated to members of the Company's management, including the Chief Executive Officer and Chief Financial Officer, to allow timely decisions regarding required disclosure. There was no change in the Corporation's internal control over financial reporting that occurred during the quarter ended August 31, 2014 that has materially affected, or is reasonably likely to materially affect, the Corporation's internal control over financial reporting.

PART II – OTHER INFORMATION

SCHOLASTIC CORPORATION
Item 6. Exhibits

Exhibits:

31.1	Certification of the Chief Executive Officer of Scholastic Corporation filed pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of the Chief Financial Officer of Scholastic Corporation filed pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32	Certifications of the Chief Executive Officer and Chief Financial Officer of Scholastic Corporation furnished pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Extension Calculation Document
101.DEF	XBRL Taxonomy Extension Definitions Document
101.LAB	XBRL Taxonomy Extension Labels Document
101.PRE	XBRL Taxonomy Extension Presentation Document

SCHOLASTIC CORPORATION
SIGNATURES

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

		SCHOLASTIC CORPORATION (Registrant)
Date: September 26, 2014	By:	/s/ Richard Robinson
		Richard Robinson Chairman of the Board, President and Chief Executive Officer
Date: September 26, 2014	By:	/s/ Maureen O’Connell
		Maureen O’Connell Executive Vice President, Chief Administrative Officer and Chief Financial Officer (Principal Financial Officer)

SCHOLASTIC CORPORATION
QUARTERLY REPORT ON FORM 10-Q, DATED AUGUST 31, 2014
Exhibits Index

Exhibit Number	Description of Document
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101.PRE	XBRL Taxonomy Extension Presentation Document *

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