

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

Form 10-Q

(Mark One)

Quarterly Report Pursuant to Section 13 or 15(d) of the Securities
Exchange Act of 1934

For the period ended August 31, 1996

or

Transition Report Pursuant to Section 13 or 15(d) of the Securities
Exchange Act of 1934

For the transition period from _____ to _____

Commission File Number: 0-19860

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

DELAWARE
(State or other jurisdiction of
incorporation or organization)

13-3385513
(IRS Employer Identification No.)

555 Broadway, New York, New York
(Address of principal executive offices)

10012
(Zip Code)

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

(Former name, former address and former fiscal year, if changed since
last report)

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

Yes No

APPLICABLE ONLY TO USERS INVOLVED IN BANKRUPTCY
PROCEEDINGS DURING THE PRECEDING FIVE YEARS:

Indicate by check mark whether the registrant has filed all documents
and reports required to be filed by Sections 12, 13 or 15(d) of the

Securities Exchange Act of 1934 subsequent to the distribution of
securities under a plan confirmed by a court.

Yes No

APPLICABLE ONLY TO CORPORATE ISSUERS:

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 September 30, 1996 -----
Common Stock, \$.01 par value	15,112,665
Class A Stock, \$.01 par value	828,100

SCHOLASTIC CORPORATION

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PART I - FINANCIAL INFORMATION

SCHOLASTIC CORPORATION
 CONSOLIDATED CONDENSED STATEMENT OF OPERATIONS
 (Unaudited)
 (Amounts in thousands except shares and per share data)

	Three Months Ended	
	August 31, 1996	August 31, 1995
	-----	-----
Revenues	\$ 158,589	\$ 135,191
Operating costs and expenses:		
Cost of goods sold	93,735	75,541
Selling, general and administrative expenses	80,561	70,388
Intangible amortization and depreciation	3,488	2,522
	-----	-----
Total operating costs and expenses	177,784	148,451
Operating loss	(19,194)	(13,260)
Interest expense, net	3,371	2,351
	-----	-----
Loss before benefit for income taxes	(22,566)	(15,611)
Benefit for income taxes	8,575	5,819
	-----	-----
Net loss	\$ (13,991)	\$ (9,792)
	=====	=====
Net loss per share	\$ (0.88)	\$ (0.62)
Weighted average shares outstanding	15,883,787	15,707,036

SEE ACCOMPANYING NOTES

SCHOLASTIC CORPORATION
CONSOLIDATED CONDENSED BALANCE SHEET
(Amounts in thousands)

	August 31, 1996	May 31, 1996	August 31, 1995
	(Unaudited)		(Unaudited)
ASSETS			
Current assets:			
Cash and cash equivalents	\$ 1,095	\$ 4,300	\$ 485
Accounts receivable less allowance for doubtful accounts	123,267	118,390	114,779
Inventories:			
Paper	17,131	9,041	20,581
Books and other	225,876	180,937	197,432
Deferred taxes current	30,786	22,694	23,303
Prepaid and other deferred expenses	18,464	15,118	22,992
	-----	-----	-----
Total current assets	416,619	350,480	379,572
Property, plant and equipment, net	115,997	114,137	96,321
Prepublication costs	103,755	105,016	84,539
Goodwill and trademarks	41,193	41,594	9,327
Royalty advances	26,078	24,758	19,659
Other assets and deferred charges	38,698	37,181	32,735
	-----	-----	-----
	\$ 742,340	\$ 673,166	\$ 622,153
	=====	=====	=====
LIABILITIES & STOCKHOLDERS' EQUITY			
Current liabilities:			
Lines of credit	\$ 24,808	\$ 20,933	\$ 16,808
Accounts payable	70,445	63,148	79,513
Accrued royalties	28,487	19,074	18,342
Deferred revenue	13,823	9,216	18,965
Other current liabilities	56,533	61,027	49,892
	-----	-----	-----
Total current liabilities	194,096	173,398	183,520
Noncurrent liabilities:			
Long-term debt	248,750	186,810	174,530
Other noncurrent liabilities	23,838	24,311	21,918
	-----	-----	-----
Total noncurrent liabilities	272,588	211,121	196,448
Stockholders' equity:			
Class A Stock, \$.01 par value	8	8	8
Common Stock, \$.01 par value	164	163	162
Additional paid-in capital	195,879	194,785	190,907
Accumulated earnings	116,652	130,643	88,954
Less shares held in treasury	(36,812)	(36,812)	(36,812)
Foreign currency translation adjustment	(235)	(140)	(1,034)
	-----	-----	-----
Total stockholder' equity	275,656	288,647	242,185
	-----	-----	-----
	\$ 742,340	\$ 673,166	\$ 622,153
	=====	=====	=====

SEE ACCOMPANYING NOTES

SCHOLASTIC CORPORATION
 CONSOLIDATED CONDENSED STATEMENT OF CASH FLOWS
 (Unaudited)
 (Amounts in thousands)

	Three Months Ended	
	August 31, 1996	August 31, 1995
Net cash used in operating activities	\$(51,654)	\$(65,063)
Cash flows from investing activities:		
Prepublication cost expenditures	(5,465)	(12,115)
Additions to property, plant and equipment	(4,654)	(4,764)
Royalty advances paid	(3,850)	(5,101)
Production cost expenditures	(3,584)	(4,438)
Business and trademark acquisition-related payments	(673)	(1,061)
Net cash used in investing activities	(18,226)	(27,479)
Cash flows from financing activities:		
Borrowings under loan agreement and revolver	112,096	84,500
Principal paydowns on loan agreement and revolver	(50,208)	(111,545)
Proceeds from issuance of convertible debt	0	107,250
Borrowings under lines of credit	9,257	17,089
Principal paydowns on lines of credit	(5,512)	(9,319)
Other, net	1,071	1,314
Net cash provided by financing activities	66,704	89,289
Effects of exchange rate changes on cash	(29)	30
Decrease in cash and cash equivalents	(3,205)	(3,223)
Cash and cash equivalents at beginning of period	4,300	3,708
Cash and cash equivalents at end of period	\$ 1,095	\$ 485
	=====	=====
Supplemental information:		
Income taxes paid	\$ 881	\$ 562
Interest paid	\$ 4,112	\$ 2,484

SEE ACCOMPANYING NOTES

SCHOLASTIC CORPORATION

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS
(Unaudited)

1. Basis of Presentation

The accompanying consolidated condensed financial statements have not been audited, but reflect those adjustments consisting of normal recurring items which management considers necessary for a fair presentation of financial position, results of operations and cash flow. These financial statements should be read in conjunction with the consolidated financial statements and related notes in the 1996 Annual Report to shareholders.

The business of Scholastic Corporation (the "Company") is the publication and sale of educational materials and its business cycle is closely correlated to the normal school year. The results of operations for the three months ended August 31, 1996 and August 31, 1995 are not indicative of the results expected for the full year. Due to the seasonal fluctuations that occur, the prior year's August 31 balance sheet is included for comparative purposes.

Certain prior year amounts have been reclassified in the accompanying consolidated condensed financial statements to conform to the current year presentation.

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. Actual results could differ from those estimates and assumptions.

2. Long Term Debt

The Company has a loan agreement (the "Loan Agreement") with certain banks which provide for revolving credit loans and letters of credit in the amount of \$135.0 million, with a right, in certain circumstances, to increase it up to \$160.0 million. The Loan Agreement expires on May 31, 2000. At August 31, 1996, the amount available of \$135.0 million was reduced by letters of credit outstanding in the amount of \$1.3 million, and the aggregate amount of borrowings was \$119.0 million.

The Company has a Revolving Loan Agreement (the "Revolver") with Sun Bank, National Association, which provides for revolving credit loans in an aggregate principal amount of up to \$35.0 million. At August 31, 1996, the aggregate amount of borrowings was \$17.0 million.

On August 18, 1995, the Company sold \$110.0 million of 5.0% Convertible Subordinated Debentures due August 15, 2005 (the

"Debentures") under Regulation S and Rule 144A of the Securities Act of 1933. The Debentures are listed on the Luxembourg Stock Exchange and the portion sold under Rule 144A is designated for trading in the Portal system of the National Association of Securities Dealers, Inc. Interest on the Debentures is payable semi-annually on August 15 and February 15 of each year. The Debentures are redeemable at the option of the Company, in whole, but not in part, at any time on or after August 15, 1998 at 100% of the principal amount plus accrued interest. Each Debenture is convertible, at the holder's option, any time prior to maturity, into Common Stock of the Company at a conversion price of \$76.86 per share.

SCHOLASTIC CORPORATION

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL
CONDITION AND RESULTS OF OPERATIONS

Results of Operations

Revenues for the quarter ended August 31, 1996 increased from \$135.2 million to \$158.6 million, or 17%, versus the comparable quarter of the prior year. Revenues improved primarily due to a \$14.5 million, or 15%, increase in domestic book publishing, resulting from continued strength in the trade and home continuity businesses, combined with initial sales of Scholastic's instructional publishing reading program, Literacy Place. Video and New Media revenues increased \$5.5 million from \$2.3 million due to increased merchandising and licensing revenues primarily from the Goosebumps branded products and production fees for the Goosebumps television series. International revenues also increased by 11% versus the comparable quarter last year. This increase is primarily due to strong trade business in the United Kingdom and Canada.

As a percentage of revenue, cost of goods sold increased from 56% to 59% compared to the prior year first quarter primarily due to the Company's sales mix, specifically the impact of trade sales growth, which has a higher cost of sales than the Company's other channels. Selling, general and administrative expense as a percentage of revenue decreased from 52% in the first quarter of the prior year to 51% this fiscal year.

The operating loss for the quarter ended August 31, 1996 increased from \$13.3 million in the prior fiscal year to \$19.1 million in this fiscal year. The net loss for the quarter ended August 31, 1996 was \$14.0 million, or \$0.88 per share, versus \$9.8 million, or \$0.62 per

share, in the comparable quarter in the prior year. The increase in the net loss was due to increases in operating and promotional costs to support the growth plan for the upcoming school year, as well as the one time Texas adoption and resulting sales of the Scholastic Early Childhood Workshop during the prior year first quarter. Scholastic's first quarter is traditionally a loss period due to significantly lower revenues from the Company's school-based book club, book fair and classroom magazine businesses, which operate at a substantially lower level during the summer months and incur a higher level of operating expenses as a percentage of revenue.

Liquidity and Capital Resources

The Company's cash and cash equivalents decreased by a comparable amount during the first quarter of fiscal 1996 and 1995, respectively. During the first quarter of each of these fiscal years, cash provided by financing activities funded net cash used in operating and investing activities.

For the first quarter of fiscal 1996 and 1995, net cash provided by financing activities was \$66.7 million and \$89.3 million, respectively. Financing activities primarily consisted of borrowings and paydowns under the Loan Agreement and the Revolver and in the first quarter of fiscal 1995, financing activities also consisted of the sale of the Debentures. Borrowings under the Loan Agreement have been a primary source of the Company's liquidity. In the three months of June, July and August, the Company experiences negative cash flows due to the seasonality of the business, and, as a consequence, its borrowings increase during these months.

Cash used in investing activities was \$18.2 million and \$27.5 million for the first quarter of fiscal 1996 and 1995, respectively. Investing activities primarily consist of prepublication and production cost expenditures, payments for capital expenditures and royalty advances. Prepublication cost expenditures totaled \$5.5 million and \$12.1 million for the first quarter of fiscal year 1996 and 1995, respectively. The \$6.6 million decrease in prepublication costs at August 31, 1996 over the comparable period in the prior year was largely due to the absence of costs associated with the Company's expansion of its instructional publishing and technology based activities, primarily the Company's investments in the development of a literacy program. Cash used in other investing activities such as production cost expenditures, payments for capital expenditures and royalty advances decreased modestly from the first quarter of fiscal 1995.

The Company believes its existing cash position, combined with funds generated from operations and funds available under the Loan Agreement and the Revolver, will be sufficient to finance its ongoing working capital requirements for the remainder of the fiscal year.

PART II - OTHER INFORMATION

Items 1, 2, 3, 4 and 5

These items, which would be answered in the negative, have been omitted.

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits:

Exhibit Number	Description of Document
3 (a)	Amended and Restated Certificate of Incorporation of the Registrant. (1)
(b)	By-laws of the Registrant. (2)
4 (a)	Amended and Restated Loan Agreement dated April 11, 1995 among the Registrant, Scholastic Inc., Citibank, N.A., as agent, Marine Midland Bank, Chase Manhattan Bank, N.A., The First National Bank of Boston and United Jersey Bank. (4)
(b)	Amendment to the Amended and Restated Loan Agreement dated May 1, 1996. (6)
(c)	Revolving Loan Agreement dated June 19, 1995 between the Registrant, Scholastic Inc. and Sun Bank, National Association. (3)
(d)	Amendment to the Revolving Loan Agreement dated August 14, 1996. (3)
(e)	Overdraft Facility dated June 1, 1992, as amended on October 30, 1995 between Scholastic Canada Ltd. and CIBC. (3)
(f)	Overdraft Facility dated June 24, 1993 between Scholastic Ltd. (formerly known as Scholastic Publications Ltd.) and Citibank, N.A. (3)
(g)	Overdraft Facility dated May 14, 1992 as amended on June 30 1995, between Scholastic Ltd. (formerly known as Scholastic Publications Ltd.) and Midland Bank. (3)
(h)	Overdraft Facility dated February 12, 1993, as amended on January 31, 1995 between Scholastic Australia Pty. Ltd. (formerly known as Ashton Scholastic Pty. Ltd.) and National Australia Bank Ltd. (3)
(i)	Indenture dated August 15, 1995, relating to \$110 million of 5% Convertible Subordinated Debentures due August 15, 2005 issued by the Registrant. (5)

(b) Reports on Form 8-K.

- None.

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Footnotes:

- (1) Incorporated by reference to the Company's Registration Statement on Form S-8 (Registration No. 33-46338) as filed with the Commission on March 12, 1992.
- (2) Incorporated by reference to the Company's Registration Statement on Form S-1(Registration No. 33-45022) as filed with the Commission on January 10, 1992 (the "1992 Registration Statement").
- (3) Such long-term debt does not individually amount to more than 10% of the total assets of the subsidiaries on a Registrant and its consolidated basis. Accordingly, pursuant to Item 601(b)(4)(iii) of Regulation S-K, such instrument is not filed herewith. The Registrant hereby agrees to furnish a copy of any such instrument to the Securities and Exchange Commission upon request.
- (4) Incorporated by reference to the Company's Form 10-Q for the quarter ended February 28, 1995 as filed with the Commission on April 13, 1995 (File No. 0-19860).
- (5) Incorporated by reference to the Company's Annual Report on Form 10-K as filed with the Commission on August 28, 1995 (File No. 0-19860).
- (6) Incorporated by reference to the Company's Annual Report on Form 10-K as filed with the Commission on August 23, 1996 (File No. 0-19860).

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: October 11, 1996

/s/ Richard Robinson

Chairman of the Board,
President, Chief Executive
Officer & Director

Date: October 11, 1996

/s/ Kevin J. McEnery

Executive Vice President and
Chief Financial Officer

THIS SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM THE ACCOMPANYING FINANCIAL STATEMENTS AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH FINANCIAL STATEMENTS.

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	3-MOS	
	MAY-31-1997	
	AUG-31-1996	
		1,093
	0	
	136,644	
	13,377	
	243,007	
	416,619	
		150,732
	34,735	
	742,340	
194,096		
		110,000
164		
	0	
	0	
	275,492	
742,340		
		158,589
	158,589	
		94,068
	174,198	
	3,488	
	3,230	
	3,469	
	(22,566)	
	8,575	
(13,991)		
	0	
	0	
		0
	(13,991)	
	(.88)	
	(.88)	