

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

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF  
THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended November 30, 2007

Commission File No. 000-19860

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

**Delaware**  
(State or other jurisdiction of  
incorporation or organization)

**13-3385513**  
(IRS Employer Identification No.)

**557 Broadway, New York, New York**  
(Address of principal executive offices)

**10012**  
(Zip Code)

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

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

Yes  No

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

Large accelerated filer  Accelerated filer  Non-accelerated filer

Indicate by check mark whether the Registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes  No

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 December 31, 2007
Common Stock, \$.01 par value	36,805,947
Class A Stock, \$.01 par value	1,656,200

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SCHOLASTIC CORPORATION  
FORM 10-Q FOR THE QUARTERLY PERIOD ENDED NOVEMBER 30, 2007  
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## Item 1. Financial Statements

SCHOLASTIC CORPORATION  
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS - UNAUDITED

(Dollar amounts in millions, except per share data)

	Three months ended November 30,		Six months ended November 30,	
	2007	2006	2007	2006
<b>Revenues</b>	<b>\$ 746.2</b>	<b>\$ 735.5</b>	<b>\$ 1,333.1</b>	<b>\$ 1,070.4</b>
Operating costs and expenses:				
Cost of goods sold	318.1	323.1	642.6	494.9
Selling, general and administrative expenses	264.1	250.5	486.8	447.1
Bad debt expense	17.5	19.5	35.3	35.2
Depreciation and amortization	16.3	16.0	33.0	32.9
Total operating costs and expenses	616.0	609.1	1,197.7	1,010.1
<b>Operating income</b>	<b>130.2</b>	<b>126.4</b>	<b>135.4</b>	<b>60.3</b>
Interest expense, net	9.5	8.3	17.9	15.7
Earnings before income taxes	120.7	118.1	117.5	44.6
Provision for income taxes	45.1	43.0	44.7	16.4
<b>Net income</b>	<b>\$ 75.6</b>	<b>\$ 75.1</b>	<b>\$ 72.8</b>	<b>\$ 28.2</b>
<b>Basic and diluted earnings per Share of Class A and Common Stock:</b>				
Basic	\$ 1.96	\$ 1.77	\$ 1.86	\$ 0.67
Diluted	\$ 1.93	\$ 1.75	\$ 1.83	\$ 0.66

See accompanying notes

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

	November 30, 2007	May 31, 2007	November 30, 2006
	<i>(Unaudited)</i>		<i>(Unaudited)</i>
<b>ASSETS</b>			
<b>Current Assets:</b>			
Cash and cash equivalents	\$ 187.6	\$ 22.8	\$ 133.7
Accounts receivable, net	343.0	281.6	339.0
Inventories	478.1	422.9	494.3
Deferred promotion costs	51.4	50.1	65.5
Deferred income taxes	93.3	71.5	73.9
Prepaid expenses and other current assets	59.3	55.8	48.8
<i>Total current assets</i>	1,212.7	904.7	1,155.2
Property, plant and equipment, net	377.0	383.3	386.2
Prepublication costs	115.0	112.7	109.0
Installment receivables, net	12.7	13.1	9.1
Royalty advances	51.7	51.3	48.4
Production costs	4.8	4.3	5.1
Goodwill	265.3	265.9	254.2
Other intangibles	78.4	78.5	78.6
Other assets and deferred charges	59.9	63.9	65.0
<b>Total assets</b>	<b>\$ 2,177.5</b>	<b>\$ 1,877.7</b>	<b>\$ 2,110.8</b>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>			
<b>Current Liabilities:</b>			
Lines of credit, short-term debt and current portion of long-term debt	\$ 83.3	\$ 66.2	\$ 303.9
Capital lease obligations	5.2	5.5	5.7
Accounts payable	146.5	135.4	145.6
Accrued royalties	143.1	39.2	42.9
Deferred revenue	63.7	24.2	54.3
Other accrued expenses	190.2	143.6	162.5
<i>Total current liabilities</i>	632.0	414.1	714.9
<b>Noncurrent Liabilities:</b>			
Long-term debt	330.8	173.4	173.3
Capital lease obligations	58.5	59.8	60.4
Other noncurrent liabilities	127.6	101.4	77.8
<i>Total noncurrent liabilities</i>	516.9	334.6	311.5
<b>Commitments and Contingencies</b>	—	—	—
<b>Stockholders' Equity:</b>			
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	527.0	490.3	469.2
Accumulated other comprehensive loss	(38.0)	(34.5)	(25.3)
Retained earnings	739.2	672.8	640.1
Treasury stock at cost	(200.0)	—	—
<i>Total stockholders' equity</i>	1,028.6	1,129.0	1,084.4
<b>Total liabilities and stockholders' equity</b>	<b>\$ 2,177.5</b>	<b>\$ 1,877.7</b>	<b>\$ 2,110.8</b>

See accompanying notes

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

	<i>Six months ended November 30,</i>	
	2007	2006
<b>Cash flows provided by operating activities:</b>		
Net income	\$ 72.8	\$ 28.2
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for losses on accounts receivable and other reserves	56.0	52.3
Amortization of prepublication and production costs	23.5	30.5
Depreciation and amortization	33.0	32.9
Royalty advances expensed	13.3	11.2
Deferred income taxes	(1.2)	(0.2)
Changes in assets and liabilities:		
Accounts receivable	(91.5)	(103.0)
Inventories	(68.7)	(77.1)
Prepaid expenses and other current assets	0.4	3.7
Deferred promotion costs	(0.9)	(15.6)
Accounts payable and other accrued expenses	55.3	9.7
Accrued royalties	103.4	6.2
Deferred revenue	40.6	34.8
Other, net	(1.4)	(2.9)
Total adjustments	161.8	(17.5)
Net cash provided by operating activities	234.6	10.7
<b>Cash flows used in investing activities:</b>		
Prepublication expenditures	(24.5)	(20.4)
Additions to property, plant and equipment	(22.6)	(19.3)
Royalty advances	(15.9)	(14.9)
Production expenditures	(2.1)	(2.5)
Repayment of loan from investee	6.2	5.7
Loan to investee	—	(1.9)
Other	(0.3)	(1.8)
Net cash used in investing activities	(59.2)	(55.1)
<b>Cash flows provided by (used in) financing activities:</b>		
Borrowings under Credit Agreement, Revolver and Revolving Loan	190.0	116.0
Repayments of Credit Agreement, Revolver and Revolving Loan	(190.0)	(116.0)
Borrowings under Term Loan	200.0	—
Repurchase of 5.75% Notes	—	(36.0)
Borrowings under lines of credit	356.0	101.0
Repayments of lines of credit	(383.0)	(89.4)
Repayments of capital lease obligations	(2.9)	(4.6)
Reacquisition of Common Stock	(200.0)	—
Proceeds pursuant to stock-based compensation plans	30.6	11.0
Other	0.7	(0.1)
Net cash provided by (used in) financing activities	1.4	(18.1)
Effect of exchange rate changes on cash and cash equivalents	(12.0)	(9.1)
Net increase (decrease) in cash and cash equivalents	164.8	(71.6)
Cash and cash equivalents at beginning of period	22.8	205.3
<b>Cash and cash equivalents at end of period</b>	<b>\$ 187.6</b>	<b>\$ 133.7</b>

See accompanying notes

## **1. Basis of Presentation**

The accompanying condensed consolidated financial statements consist of the accounts of Scholastic Corporation (the “Corporation”) and all wholly-owned and majority-owned subsidiaries (collectively, “Scholastic” or the “Company”). These financial statements have not been audited but reflect those adjustments consisting of normal recurring items that management considers necessary for a fair presentation of financial position, results of operations and cash flows. These financial statements should be read in conjunction with the consolidated financial statements and related notes in the Annual Report on Form 10-K for the fiscal year ended May 31, 2007.

The Company’s business is closely correlated to the school year. Consequently, the results of operations for the three and six months ended November 30, 2007 and 2006 are not necessarily indicative of the results expected for the full year. Due to the seasonal fluctuations that occur, the November 30, 2006 condensed consolidated balance sheet is included for comparative purposes.

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 affect 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 ongoing basis, the Company evaluates the adequacy of its reserves and the estimates used in calculations, including, but not limited to: collectability of accounts receivable and installment receivables; sales returns; amortization periods; pension and other post-retirement obligations; tax rates; and recoverability of inventories, deferred promotion costs, deferred income taxes and tax reserves, prepublication costs, royalty advances, goodwill and other intangibles.

Certain prior year amounts have been reclassified to conform to the current year presentation. The Company had previously reported certain amounts related to the translation of foreign currency amounts in “Other, net” in the Statement of Cash Flows that are now presented as a component of the “Effect of exchange rate changes on cash and cash equivalents.” The prior year reclassifications to the Statement of Cash Flows resulted in a \$6.3 increase in “Net cash provided by operating activities” for the six months ended November 30, 2006, of which \$9.7 was attributable to the foreign currency reclassification, offset primarily by a \$3.8 reclassification of a related party loan to “Net cash used in investing activities.”

### **New Accounting Pronouncements**

In September 2006, the Financial Accounting Standards Board (“FASB”) issued Statement of Financial Accounting Standards (“SFAS”) No. 157, “Fair Value Measurements” (“SFAS 157”). SFAS 157 defines fair value, establishes a framework for measuring fair value under generally accepted accounting principles, and expands disclosures about fair value measurements. SFAS 157 emphasizes that fair value is a market-based measurement, not an entity-specific measurement, and states that a fair value measurement should be determined based on the assumptions that market participants would use in pricing the asset or liability. SFAS 157 will become effective for the Company’s fiscal year beginning June 1, 2008. The Company is currently evaluating the impact, if any, that SFAS 157 will have on its consolidated financial position, results of operations and cash flows.

In February 2007, the FASB issued SFAS No. 159, “The Fair Value Option for Financial Assets and Financial Liabilities” (“SFAS 159”), to provide companies with an option to report selected financial assets and liabilities at fair value. The objective of SFAS 159 is to reduce both the complexity in accounting for financial instruments and the volatility in earnings caused by measuring related assets and liabilities differently. SFAS 159 will become effective for the Company’s fiscal year beginning June 1, 2008. The Company is currently evaluating the impact, if any, that SFAS 159 will have on its consolidated financial position, results of operations and cash flows.

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

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

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

**2. Segment Information**

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

• *Children’s Book Publishing and Distribution* includes the publication and distribution of children’s books in the United States through school-based book clubs and book fairs, school-based and direct-to-home continuity programs and the trade channel.

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

• *Media, Licensing and Advertising* includes the production and/or distribution of media and electronic products and programs (including children’s television programming, videos, DVDs, software, feature films, interactive and audio products, promotional activities and non-book merchandise); and advertising revenue, including sponsorship programs.

• *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.

The following table sets forth information for the Company’s segments for the periods indicated:

	Children’s Book Publishing and Distribution	Educational Publishing	Media, Licensing and Advertising	Overhead <sup>(1)</sup>	Total Domestic	International	Consolidated
<b>Three months ended November 30, 2007</b>							
Revenues	\$ 431.3	\$ 99.6	\$ 57.7	\$ 0.0	\$ 588.6	\$ 157.6	\$ 746.2
Bad debt	14.8	0.4	0.0	0.0	15.2	2.3	17.5
Depreciation and amortization <sup>(2)</sup>	3.8	0.9	5.5	4.1	14.3	2.0	16.3
Amortization <sup>(3)</sup>	2.7	5.7	1.6	0.0	10.0	0.6	10.6
Royalty advances expensed	3.5	0.1	0.2	0.0	3.8	1.4	5.2
Operating income (loss)	99.7	12.5	10.9	(17.1)	106.0	24.2	130.2
Expenditures for long-lived assets <sup>(4)</sup>	9.4	6.8	5.9	7.2	29.3	5.2	34.5
<b>Three months ended November 30, 2006</b>							
Revenues	\$ 442.7	\$ 97.2	\$ 56.6	\$ 0.0	\$ 596.5	\$ 139.0	\$ 735.5
Bad debt	14.5	0.6	1.2	0.0	16.3	3.2	19.5
Depreciation and amortization <sup>(2)</sup>	4.1	0.9	3.6	5.9	14.5	1.5	16.0
Amortization <sup>(3)</sup>	4.5	7.7	2.3	0.0	14.5	0.5	15.0
Royalty advances expensed	5.9	0.4	0.4	0.0	6.7	0.6	7.3
Operating income (loss)	99.6	17.1	9.2	(19.3)	106.6	19.8	126.4
Expenditures for long-lived assets <sup>(4)</sup>	16.2	6.8	4.5	3.8	31.3	3.4	34.7

(1) *Overhead includes all domestic corporate amounts not allocated to reportable segments, including expenses and costs related to the management of corporate assets. Unallocated assets are principally comprised of deferred income taxes and property, plant and equipment related to the Company’s headquarters in the metropolitan New York area, its fulfillment and distribution facilities located in Missouri and Arkansas, and an industrial/office building complex in Connecticut.*

(2) *Includes depreciation of property, plant and equipment and amortization of intangible assets, but excludes amortization of promotion costs.*

(3) *Includes amortization of prepublication costs and production costs, but excludes amortization of promotion costs.*

(4) *Includes expenditures for property, plant and equipment, investments in prepublication and production costs, royalty advances and acquisitions of, and investments in, businesses.*

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

	Children's Book Publishing and Distribution	Educational Publishing	Media, Licensing and Advertising	Overhead <sup>(1)</sup>	Total Domestic	International	Consolidated
<b>Six months ended November 30, 2007</b>							
Revenues	\$ 773.8	\$ 227.4	\$ 74.7	\$ 0.0	\$ 1,075.9	\$ 257.2	\$ 1,333.1
Bad debt	29.7	0.4	0.4	0.0	30.5	4.8	35.3
Depreciation and amortization <sup>(2)</sup>	8.5	1.9	5.8	12.9	29.1	3.9	33.0
Amortization <sup>(3)</sup>	7.2	12.1	3.1	0.0	22.4	1.1	23.5
Royalty advances expensed	13.3	0.6	0.3	0.0	14.2	1.6	15.8
Operating income (loss)	102.4	43.1	5.8	(37.4)	113.9	21.5	135.4
Segment assets	957.4	352.3	87.1	391.4	1,788.2	389.3	2,177.5
Goodwill	130.6	92.8	9.8	0.0	233.2	32.1	265.3
Expenditures for long-lived assets <sup>(4)</sup>	25.7	11.7	7.4	11.6	56.4	8.7	65.1
Long-lived assets <sup>(5)</sup>	299.5	211.5	37.4	264.2	812.6	119.4	932.0

<b>Six months ended November 30, 2006</b>							
Revenues	\$ 555.3	\$ 224.6	\$ 72.3	\$ 0.0	\$ 852.2	\$ 218.2	\$ 1,070.4
Bad debt	28.0	0.6	1.3	0.0	29.9	5.3	35.2
Depreciation and amortization <sup>(2)</sup>	8.4	1.9	4.0	15.6	29.9	3.0	32.9
Amortization <sup>(3)</sup>	8.9	15.0	5.4	0.0	29.3	1.2	30.5
Royalty advances expensed	10.2	0.7	0.6	0.0	11.5	1.3	12.8
Operating income (loss)	32.3	49.8	3.1	(39.2)	46.0	14.3	60.3
Segment assets	955.5	342.6	88.7	374.0	1,760.8	350.0	2,110.8
Goodwill	130.6	82.5	9.8	0.0	222.9	31.3	254.2
Expenditures for long-lived assets <sup>(4)</sup>	28.7	10.5	8.1	5.7	53.0	5.9	58.9
Long-lived assets <sup>(5)</sup>	295.6	200.9	40.8	273.0	810.3	114.0	924.3

(1) *Overhead includes all domestic corporate amounts not allocated to reportable segments, including expenses and costs related to the management of corporate assets. Unallocated assets are principally comprised of deferred income taxes and property, plant and equipment related to the Company's headquarters in the metropolitan New York area, its fulfillment and distribution facilities located in Missouri and Arkansas, and an industrial/office building complex in Connecticut.*

(2) *Includes depreciation of property, plant and equipment and amortization of intangible assets, but excludes amortization of promotion costs.*

(3) *Includes amortization of prepublication costs and production costs, but excludes amortization of promotion costs.*

(4) *Includes expenditures for property, plant and equipment, investments in prepublication and production costs, royalty advances and acquisitions of, and investments in, businesses.*

(5) *Includes property, plant and equipment, prepublication costs, goodwill, other intangibles, royalty advances, production costs and long-term investments.*



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

The following tables separately set forth information for the periods indicated for the United States direct-to-home portion of the Company's continuity programs, which consist primarily of the business formerly operated by Grolier Incorporated and are included in the *Children's Book Publishing and Distribution* segment, and for all other businesses included in the segment. See Note 12, "Subsequent Event," regarding the Company's announcement of its intention to sell the direct-to-home portion of its continuity businesses.

**Three months ended  
November 30,**

	Direct-to-home		All Other		Total	
	2007	2006	2007	2006	2007	2006
Revenues	\$ 33.2	\$ 38.1	\$ 398.1	\$ 404.6	\$ 431.3	\$ 442.7
Bad debt	9.8	10.0	5.0	4.5	14.8	14.5
Depreciation and amortization <sup>(1)</sup>	0.0	0.2	3.8	3.9	3.8	4.1
Amortization <sup>(2)</sup>	0.4	1.1	2.3	3.4	2.7	4.5
Royalty advances expensed	0.6	1.3	2.9	4.6	3.5	5.9
Operating income (loss)	(9.7)	(4.4)	109.4	104.0	99.7	99.6
Expenditures for long-lived assets <sup>(3)</sup>	0.8	2.7	8.6	13.5	9.4	16.2

**Six months ended  
November 30,**

	Direct-to-home		All Other		Total	
	2007	2006	2007	2006	2007	2006
Revenues	\$ 70.5	\$ 74.4	\$ 703.3	\$ 480.9	\$ 773.8	\$ 555.3
Bad debt	21.4	20.7	8.3	7.3	29.7	28.0
Depreciation and amortization <sup>(1)</sup>	0.6	0.5	7.9	7.9	8.5	8.4
Amortization <sup>(2)</sup>	0.8	1.4	6.4	7.5	7.2	8.9
Royalty advances expensed	1.1	1.5	12.2	8.7	13.3	10.2
Operating income (loss)	(17.2)	(10.9)	119.6	43.2	102.4	32.3
Business assets	208.9	227.0	748.5	728.5	957.4	955.5
Goodwill	92.4	92.4	38.2	38.2	130.6	130.6
Expenditures for long-lived assets <sup>(3)</sup>	2.3	4.4	23.4	24.3	25.7	28.7
Long-lived assets <sup>(4)</sup>	117.9	117.5	181.6	178.1	299.5	295.6

(1) Includes depreciation of property, plant and equipment and amortization of intangible assets, but excludes amortization of promotion costs.

(2) Includes amortization of prepublication costs, but excludes amortization of promotion costs.

(3) Includes expenditures for property, plant and equipment, investments in prepublication costs, and royalty advances.

(4) Includes property, plant and equipment, prepublication costs, goodwill, other intangibles and royalty advances.

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

**3. Debt**

The following table summarizes debt as of the dates indicated:

	<i>November 30, 2007</i>	<i>May 31, 2007</i>	<i>November 30, 2006</i>
Lines of Credit	\$ 40.5	\$ 66.2	\$ 45.7
Loan Agreement:			
Revolving Loan	—	—	—
Term Loan	200.0	—	—
5.75% Notes due 2007, net of premium/discount	—	—	258.2
5% Notes due 2013, net of discount	173.6	173.4	173.3
<b>Total debt</b>	<b>414.1</b>	<b>239.6</b>	<b>477.2</b>
Less lines of credit, short-term debt and current portion of long-term debt	(83.3)	(66.2)	(303.9)
<b>Total long-term debt</b>	<b>\$ 330.8</b>	<b>\$ 173.4</b>	<b>\$ 173.3</b>

The following table sets forth the maturities of the Company's debt obligations as of November 30, 2007 for the remainder of fiscal 2008 and thereafter:

Six-month period ending May 31:	
2008	\$ 61.9
Fiscal years ending May 31:	
2009	42.8
2010	42.8
2011	42.8
2012	42.8
Thereafter	181.0
<b>Total debt</b>	<b>\$ 414.1</b>

*Loan Agreement*

On June 1, 2007, Scholastic Corporation and Scholastic Inc. (each, a "Borrower" and together, the "Borrowers") elected to replace the Company's then-existing credit facilities, the Credit Agreement and the Revolver (as discussed below), with a new \$525.0 credit facility with certain banks (the "Loan Agreement"), consisting of a \$325.0 revolving credit component (the "Revolving Loan") and an amortizing \$200.0 term loan component (the "Term Loan"). The Loan Agreement is a contractually committed unsecured credit facility that is scheduled to expire on June 1, 2012. The \$325.0 Revolving Loan component allows the Company to borrow, repay or prepay and reborrow at any time prior to the stated maturity date, and the proceeds may be used for general corporate purposes, including financing for acquisitions and share repurchases. The Loan Agreement also provides for an increase in the aggregate Revolving Loan commitments of the lenders of up to an additional \$150.0. The \$200.0 Term Loan component was established in order to fund the reacquisition by the Corporation of shares of its Common Stock pursuant to an Accelerated Share Repurchase Agreement (see Note 10, "Treasury Stock", below) and was fully drawn on June 28, 2007 in connection with that transaction. The Term Loan, which may be prepaid at any time without penalty, requires quarterly principal payments of \$10.7, with the first payment on December 31, 2007, and a final payment of \$7.4 due on June 1, 2012. Interest on both the Term Loan and Revolving Loan is due and payable in arrears on the last day of the interest period (defined as the period commencing on the date of the advance and ending on the last day of the period selected by the Borrower at the time each advance is made). At the election of the Borrower, the interest rate charged for each loan made under the Loan Agreement is based on (1) a rate equal to the higher of (a) the prime rate or (b) the prevailing Federal Funds rate plus 0.5% or (2) an adjusted LIBOR rate plus an applicable margin, ranging from 0.50% to 1.25% based on the Company's prevailing consolidated debt to total capital ratio. As of November 30, 2007, the applicable margin on the Term Loan was 1.0% and the applicable margin on the Revolving Loan was 0.8%. The Loan Agreement also provides for the payment of a facility fee ranging from 0.125% to 0.25% per annum on the Revolving Loan only, which at November 30, 2007 was 0.2%. As of November 30, 2007, \$200.0 was outstanding under the Term Loan at a weighted average interest rate of 6.2%. There were no outstanding borrowings under the Revolving Loan as of November 30, 2007. The Loan Agreement contains certain covenants, including interest coverage and leverage ratio tests and certain limitations on the amount of dividends and other distributions, and at November 30, 2007 the Company was in compliance with these covenants.

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

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*Credit Agreement*

The Credit Agreement was a \$190.0 unsecured revolving credit facility with certain banks that was scheduled to expire in 2009 but was terminated, along with the Revolver, at the election of the Borrowers as of June 1, 2007 and replaced by the Loan Agreement. The interest rate charged for all loans made under the Credit Agreement was, at the election of the Borrower, based on the prime rate or, alternatively, an adjusted LIBOR rate plus an applicable margin, ranging from 0.325% to 0.975%. The Credit Agreement also provided for the payment of a facility fee in the range of 0.10% to 0.30% and a utilization fee, if total borrowings exceeded 50% of the total facility, in the range of 0.05% to 0.25%. The amounts charged varied based on the Company's published credit ratings. The margin, facility fee and utilization fee as of May 31, 2007 were 0.975%, 0.30% and 0.25%, respectively. There were no outstanding borrowings under the Credit Agreement at May 31, 2007 or November 30, 2006.

*Revolver*

The Revolver was a \$40.0 unsecured revolving loan agreement with a bank that was scheduled to expire in 2009 but was terminated, along with the Credit Agreement, at the election of the Borrowers as of June 1, 2007 and replaced with the Loan Agreement. The interest rate charged for all loans made under the Revolver was set at either (1) the prime lending rate minus 1% or (2) an adjusted LIBOR rate plus an applicable margin, ranging from 0.375% to 1.025%. The Revolver also provided for the payment of a facility fee in the range of 0.10% to 0.30%. The amounts charged varied based on the Company's published credit ratings. The margin and facility fee as of May 31, 2007 were 1.025% and 0.30%, respectively. There were no outstanding borrowings under the Revolver at May 31, 2007 or November 30, 2006.

*5.75% Notes due 2007*

In January 2002, Scholastic Corporation issued \$300.0 of 5.75% Notes (the "5.75% Notes"). The 5.75% Notes were senior unsecured obligations that matured on January 15, 2007 with interest payable semi-annually on July 15 and January 15 of each year through maturity. The Company repurchased \$6.0 of the 5.75% Notes on the open market in fiscal 2006 and \$36.0 of the 5.75% Notes on the open market during the first six months of fiscal 2007. In January 2007, the Company repaid the \$258.0 of the 5.75% Notes that remained outstanding at maturity.

*5% Notes due 2013*

In April 2003, Scholastic Corporation issued \$175.0 of 5% Notes (the "5% Notes"). The 5% Notes are senior unsecured obligations that mature on April 15, 2013. Interest on the 5% Notes is payable semi-annually on April 15 and October 15 of each year through maturity. The Company may at any time redeem all or a portion of the 5% Notes at a redemption price (plus accrued interest to the date of the redemption) equal to the greater of (i) 100% of the principal amount, or (ii) the sum of the present values of the remaining scheduled payments of principal and interest discounted to the date of redemption.

*Lines of Credit*

During the last half of fiscal 2007, the Company entered into unsecured money market bid rate credit lines totaling \$50.0, of which \$41.0 was outstanding at May 31, 2007. There were no outstanding borrowings under these credit lines at November 30, 2007. All loans made under these credit lines are at the sole discretion of the lender and at an interest rate and term, not to exceed 364 days, agreed to at the time each loan is made. The weighted average interest rate for all money market bid rate loans outstanding on May 31, 2007 was 6.2%. These credit lines are typically available for loans up to 364 days and may be renewed, if requested by the Company, at the sole option of the lender.

As of November 30, 2007, the Company had various local currency credit lines, with maximum available borrowings in amounts equivalent to \$89.6, 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 option of the lender. There were borrowings outstanding under these facilities equivalent to \$40.5 at November 30, 2007 at a weighted average interest rate of 7.0%, as compared to the equivalent of \$25.2 at May 31, 2007 at a weighted average interest rate of 7.0% and the equivalent of \$45.7 at November 30, 2006 at a weighted average interest rate of 5.4%.

**SCHOLASTIC CORPORATION**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - UNAUDITED**  
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**4. Comprehensive Income**

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

	<i>Three months ended November 30,</i>		<i>Six months ended November 30,</i>	
	2007	2006	2007	2006
Net income	\$ 75.6	\$ 75.1	\$ 72.8	\$ 28.2
Other comprehensive income (loss):				
Foreign currency translation adjustments	1.2	1.8	(3.9)	(5.2)
Retirement plans and post-retirement healthcare, net of tax	0.2	—	0.4	—
<b>Comprehensive income</b>	<b>\$ 77.0</b>	<b>\$ 76.9</b>	<b>\$ 69.3</b>	<b>\$ 23.0</b>

**5. Investment**

The Company has a 12.25% equity interest in the Children's Network Venture LLC ("Children's Network"), which produces and distributes educational children's television programming under the name "Qubo." Since inception in August 2006, the Company has contributed a total of \$2.9 in cash and certain rights to existing television programming to the Children's Network. The Company's investment is accounted for using the equity method of accounting and is included in the Other assets and deferred charges section of the Company's consolidated balance sheets. As of November 30, 2007, the Company had reduced the balance in the investment account for the Children's Network by approximately \$2.1 to properly account for the Company's share of the entity's losses to date.

**6. Earnings Per Share**

Basic earnings per share is computed by dividing net income by the weighted average Shares of Class A Stock and Common Stock outstanding during the period. Diluted earnings per share is calculated to give effect to potentially dilutive options to purchase Class A and Common Stock and restricted stock units granted pursuant to the Company's stock-based compensation plans that were outstanding during the period. The Company calculates per share figures prior to rounding in millions. The weighted average shares of Class A Stock and Common Stock outstanding were lower as of November 30, 2007 as compared to November 30, 2006 due to the Accelerated Share Repurchase described in Note 10, "Treasury Stock," below. The following table summarizes the reconciliation of the numerators and denominators for the basic and diluted earnings per share computation for the periods indicated:

	<i>Three months ended November 30,</i>		<i>Six months ended November 30,</i>	
	2007	2006	2007	2006
<b>Net income for basic and diluted earnings per share</b>	<b>\$ 75.6</b>	<b>\$ 75.1</b>	<b>\$ 72.8</b>	<b>\$ 28.2</b>
Weighted average Shares of Class A Stock and Common Stock outstanding for basic earnings per share, in millions	38.5	42.3	39.1	42.2
Dilutive effect of Class A Stock and Common Stock potentially issued pursuant to stock-based compensation plans, in millions	0.6	0.5	0.6	0.4
Adjusted weighted average Shares of Class A Stock and Common Stock outstanding for diluted earnings per share, in millions	39.1	42.8	39.7	42.6
<b>Earnings per share of Class A Stock and Common Stock:</b>				
Basic	\$ 1.96	\$ 1.77	\$ 1.86	\$ 0.67
Diluted	\$ 1.93	\$ 1.75	\$ 1.83	\$ 0.66

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**7. Goodwill and Other Intangibles**

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

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

	<i>Six months ended November 30, 2007</i>	<i>Twelve months ended May 31, 2007</i>	<i>Six months ended November 30, 2006</i>
Beginning balance	\$ 265.9	\$ 253.1	\$ 253.1
Additions due to acquisitions	—	11.7	—
Purchase accounting adjustments	(1.3)	—	—
Translation adjustments	0.7	1.1	1.1
<b>Total</b>	<b>\$ 265.3</b>	<b>\$ 265.9</b>	<b>\$ 254.2</b>

The following table summarizes Other intangibles subject to amortization at the dates indicated:

	<i>November 30, 2007</i>	<i>May 31, 2007</i>	<i>November 30, 2006</i>
Customer lists	\$ 3.2	\$ 3.2	\$ 3.2
Accumulated amortization	(2.9)	(2.9)	(3.0)
Net customer lists	0.3	0.3	0.2
Other intangibles	4.1	4.1	4.2
Accumulated amortization	(3.1)	(3.0)	(2.9)
Net other intangibles	1.0	1.1	1.3
<b>Total</b>	<b>\$ 1.3</b>	<b>\$ 1.4</b>	<b>\$ 1.5</b>

Amortization expense for Other intangibles totaled \$0.1 for each of the six month periods ended November 30, 2007 and November 30, 2006 and \$0.2 for the twelve months ended May 31, 2007. Amortization expense for these assets is currently estimated to total \$0.2 for each of the fiscal years ending May 31, 2008 through 2011 and \$0.1 for the fiscal year ending May 31, 2012. Intangible assets with definite lives consist principally of customer lists and covenants not to compete. Customer lists are amortized on a straight-line basis over a five-year period, while covenants not to compete are amortized on a straight-line basis over their contractual term.

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

	<i>November 30, 2007</i>	<i>May 31, 2007</i>	<i>November 30, 2006</i>
Net carrying value by major class:			
Titles	\$ 31.0	\$ 31.0	\$ 31.0
Licenses	17.2	17.2	17.2
Major sets	11.4	11.4	11.4
Trademarks and Other	17.5	17.5	17.5
<b>Total</b>	<b>\$ 77.1</b>	<b>\$ 77.1</b>	<b>\$ 77.1</b>

**8. Pension and Other Post-Retirement Benefits**

The following table sets forth components of the net periodic benefit costs under the Company's cash balance retirement plan for its United States employees meeting certain eligibility requirements (the "U. S. Pension Plan"), the defined benefit pension plan of Scholastic Ltd., an indirect subsidiary of Scholastic Corporation located in the United Kingdom (the "U. K. Pension Plan"), the defined benefit pension plan of Grolier Ltd., an indirect subsidiary of Scholastic Corporation located in Canada (the "Canadian Pension Plan" and together with the U. S. Pension Plan and the U. K. Pension Plan, the "Pension Plans"), and the post-retirement benefits provided by the Company to its retired United States-based employees, consisting of certain healthcare and life insurance benefits, for the periods indicated:

	<b>Pension Plans</b> <i>Three months ended</i> <i>November 30,</i>		<b>Post-Retirement Benefits</b> <i>Three months ended</i> <i>November 30,</i>	
	2007	2006	2007	2006
Components of Net Periodic Benefit Cost:				
Service cost	\$ 2.1	\$ 2.0	\$ —	\$ 0.1
Interest cost	2.5	2.3	0.4	0.4
Expected return on assets	(3.0)	(2.3)	—	—
Net amortization of prior service (credit)/cost	—	—	(0.2)	(0.2)
Amortization of loss	0.6	0.7	0.4	0.4
<b>Net periodic benefit cost</b>	<b>\$ 2.2</b>	<b>\$ 2.7</b>	<b>\$ 0.6</b>	<b>\$ 0.7</b>

	<b>Pension Plans</b> <i>Six months ended</i> <i>November 30,</i>		<b>Post-Retirement Benefits</b> <i>Six months ended</i> <i>November 30,</i>	
	2007	2006	2007	2006
Components of Net Periodic Benefit Cost:				
Service cost	\$ 4.3	\$ 4.0	\$ 0.1	\$ 0.1
Interest cost	5.0	4.6	0.9	0.9
Expected return on assets	(5.8)	(4.6)	—	—
Net amortization of prior service (credit)/cost	(0.1)	(0.1)	(0.4)	(0.4)
Amortization of loss	1.0	1.4	0.7	0.7
<b>Net periodic benefit cost</b>	<b>\$ 4.4</b>	<b>\$ 5.3</b>	<b>\$ 1.3</b>	<b>\$ 1.3</b>

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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. These contributions are intended to provide for future benefits earned to date and those expected to be earned in the future. For the six months ended November 30, 2007, the Company contributed \$6.0, \$0.4 and \$0.0 to the U. S. Pension Plan, the U. K. Pension Plan and the Canadian Pension Plan, respectively. The Company expects, based on current actuarial calculations, to contribute cash of approximately \$13.4 in the aggregate to the Pension Plans in the fiscal year ending May 31, 2008.

**9. Stock-Based Compensation**

The following table summarizes stock-based compensation for the periods indicated:

	<i>Three months ended November 30,</i>		<i>Six months ended November 30,</i>	
	<b>2007</b>	<b>2006</b>	<b>2007</b>	<b>2006</b>
Stock option expense	\$ 1.0	\$ 0.5	\$ 1.9	\$ 0.5
Restricted stock unit expense	0.6	0.3	0.9	0.5
Employee stock purchase plan expense	0.1	0.1	0.2	0.2
<b>Total stock-based compensation</b>	<b>\$ 1.7</b>	<b>\$ 0.9</b>	<b>\$ 3.0</b>	<b>\$ 1.2</b>

During the six month periods ended November 30, 2007 and 2006, the Corporation issued 1.1 million and 0.4 million shares of Common Stock, respectively, pursuant to its stock-based compensation plans.

**10. Treasury Stock**

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

**11. Income Taxes**

The Company calculates its interim income tax provision in accordance with Accounting Principles Board Opinion No. 28, "Interim Financial Reporting," and FASB Interpretation No. 18, "Accounting for Income Taxes in Interim Periods." 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 ordinary quarterly earnings or losses. The Company's effective tax rate is based on expected income and statutory tax rates and permanent differences between financial statement and tax return income applicable to the Company in the various jurisdictions in which the Company operates. The effect of changes in enacted tax laws or rates or tax status is recognized in the interim period in which the change 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.

In July 2006, the FASB issued Interpretation No. 48, "Accounting for Uncertainty in Income Taxes" ("FIN 48"). FIN 48 clarifies the accounting for uncertainty in income taxes recognized in a company's financial statements in accordance with SFAS No. 109, "Accounting for Income Taxes." FIN 48 provides guidance on recognizing, measuring, presenting, and disclosing in the financial statements uncertain tax positions that a company has taken or expects to file in a tax return. FIN 48 states that a tax benefit from an uncertain tax position may be recognized only if it is "more likely than not" that the position is sustainable, based on its technical merits. The tax benefit of a qualifying position is the largest amount of tax benefit that is greater than 50% likely of being realized upon settlement with a taxing authority having full knowledge of all relevant information. Prior to the issuance of FIN 48, an uncertain tax position would not be recorded unless it was "probable" that a loss or reduction of benefits would occur. Under FIN 48, the liability for unrecognized tax benefits is classified as noncurrent unless the liability is expected to be settled in cash within 12 months of the reporting date. The Company adopted the provisions of FIN 48 effective as of June 1, 2007.

Upon adoption, the Company recognized a \$34.0 increase in the liability for unrecognized tax benefits, a \$27.6 increase in deferred tax assets, and a \$6.4 reduction to the June 1, 2007 balance of retained earnings. As of June 1, 2007, the total amount of unrecognized tax benefits was \$40.2, of which \$5.7 and \$0.6 represented accruals for potential payments of interest and penalties, respectively. Of this total, \$12.7 represented the total amounts of unrecognized tax benefits that, if recognized, would affect the effective tax rate favorably. There have been no material changes to the liability for uncertain tax positions for the six months ended November 30, 2007. The Company does not currently anticipate a material change to its unrecognized tax benefits within twelve months of November 30, 2007; however, actual developments can change these expectations. The Company's policy is to classify potential liabilities for interest and penalties related to unrecognized tax benefits as part of its income tax provision. During the six months ended November 30, 2007, the Company recognized \$0.9 of income tax expense for accruals for potential payments of interest and penalties.

The Company's provision for income taxes resulted in an effective tax rate of 38.1% and 36.8% for the six months ended November 30, 2007 and 2006, respectively. The higher effective tax rate for the six months ended November 30, 2007 compared to the prior fiscal year period was primarily attributable to the adoption of FIN 48, effective as of June 1, 2007, which increased the rate by 80 basis points, or 0.8%, and additional tax expense related to a change in the statutory tax rate of a foreign subsidiary of the Corporation, which increased the rate by 30 basis points, or 0.3%.

The Corporation, including its domestic subsidiaries, files a consolidated U.S. income tax return, and also files tax returns in various states and other local jurisdictions. Also, certain subsidiaries of the Corporation file income tax returns in foreign jurisdictions. The Company is routinely audited by various tax authorities. The Company believes it is no longer subject to an income tax assessment by the United States Internal Revenue Service ("IRS") for the years ended on or before May 31, 2003 due to the expiration of the statute of limitations. The Company has been selected for audit by the IRS for its fiscal years ended May 2004, 2005 and 2006. The Company's principal operations are located in New York City. The Company is also currently under audit by both New York State and New York City for fiscal years ended May 2002, 2003 and 2004. It is possible that federal, state and foreign tax examinations will be settled during the next twelve months. If any of these tax examinations are concluded within that period, the Company will make any necessary adjustments to its unrecognized tax benefits.

## **12. Subsequent Event**

On December 20, 2007, the Company announced that it intends to sell the direct-to-home portion of its continuity businesses located in the United States, the United Kingdom and Canada (collectively, the "DTH business"). The DTH business did not qualify as an asset held for sale as of November 30, 2007 based on the criteria of SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets," but the Company currently anticipates that the DTH business will meet those criteria during its fiscal quarter ending February 29, 2008; as a result, the DTH business would be reported as discontinued operations for accounting purposes, which would include an assessment of the carrying value of the discontinued operations and require write-downs for impairments, if present. The Company currently anticipates that there will be potentially significant non-cash write-downs required within the DTH business based on generally accepted accounting principles. The domestic portion of the DTH business is included in the *Children's Book Publishing and Distribution* segment, and the international portion of the DTH business, which is located in the United Kingdom and Canada, is included in the *International* segment.



**Overview and Outlook**

Revenue for the quarter ended November 30, 2007 increased by \$10.7 million, or 1.5%, over the prior fiscal year quarter as a result of higher revenues in the *International*, *Educational Publishing*, and *Media, Licensing and Advertising* segments, partially offset by lower revenue in the *Children's Book Publishing and Distribution* segment. Operating income for the quarter ended November 30, 2007 increased by \$3.8 million, or 3.0%, over the prior fiscal year quarter. Operating profits for the quarter increased in the Company's trade, school-based book fair and school-based book club businesses, which are reported in the *Children's Book Publishing and Distribution* segment, and in the *International* and *Media Licensing and Advertising* segments, and corporate overhead expense declined. These improvements were partially offset by continued planned investment for long term growth, including reorganization of the *Educational Publishing* sales and service organizations, and higher losses in the Company's direct-to-home continuity businesses (the "DTH business").

For the six months ended November 30, 2007, revenue and operating income increased by \$262.7 million and \$75.1 million, respectively, and operating margin increased to 10.2% from 5.6% in the prior fiscal year period. The revenue and profit increases were primarily a result of the release of *Harry Potter and the Deathly Hallows*, the final book of the seven book series, on July 21, 2007.

In the second fiscal quarter, the Company continued to make progress toward achieving its goals for fiscal 2008. However, after a careful review of the performance of the DTH business through the first six months of the fiscal year, the Company concluded that this business will not meet its financial goals for the year. As a result, on December 20, 2007 the Company announced that it had decided to pursue a sale of both the domestic portion of this business, which is included in the *Children's Book Publishing and Distribution* segment, and the international portion of this business, which is based in the United Kingdom and Canada and is included in the *International* segment.

**Results of Operations - Consolidated**

Revenues for the quarter ended November 30, 2007 increased to \$746.2 million, compared to \$735.5 million in the prior fiscal year quarter. This increase was due to higher revenues in the *International*, *Educational Publishing*, and *Media, Licensing and Advertising* segments, which increased by \$18.6 million, \$2.4 million and \$1.1 million, respectively, partially offset by an \$11.4 million decline in revenues from the *Children's Book Publishing and Distribution* segment, as compared to the prior fiscal year quarter. For the six months ended November 30, 2007, revenues increased by 24.5% to \$1,333.1, compared to \$1,070.4 million in the prior fiscal year period, due to higher revenues in each of the Company's four operating segments, led by the *Children's Book Publishing and Distribution* segment, which rose by \$218.5 million principally as a result of the July 2007 release of *Harry Potter and the Deathly Hallows*, and the *International* segment, which rose by \$39.0 million, as compared to the prior fiscal year period.

Cost of goods sold for the quarter ended November 30, 2007 decreased to \$318.1 million, or 42.6% of revenues, from \$323.1 million, or 43.9% of revenues, in the prior fiscal year quarter, primarily due to timing of prepublication amortization. For the six months ended November 30, 2007, cost of goods sold increased to \$642.6 million, or 48.2% of revenues, compared to \$494.9 million, or 46.2% of revenues, in the prior fiscal year period, primarily due to costs related to the release of *Harry Potter and the Deathly Hallows*.

Selling, general and administrative expenses increased to \$264.1 million, or 35.4% of revenues, in the quarter ended November 30, 2007, as compared to \$250.5 million, or 34.1% of revenues, in the prior fiscal year quarter primarily due to the planned investments in the sales and service organizations in the *Educational Publishing* segment. For the six months ended November 30, 2007, selling, general and administrative expenses increased to \$486.8 million from \$447.1 million in the prior fiscal year period, primarily due to costs related to the Harry Potter release in July 2007. As a percentage of revenues, selling, general and administrative expenses decreased to 36.5% for the six months ended November 30, 2007 from 41.8% in the prior fiscal year period, primarily due to the revenue benefit from *Harry Potter and the Deathly Hallows* without a proportionate increase in expense.

Bad debt expense for the quarter ended November 30, 2007 was \$17.5 million, or 2.3% of revenues, compared to \$19.5 million, or 2.7% of revenues, in the prior fiscal year quarter. For the six months ended November 30, 2007, bad debt expense was \$35.3 million, or 2.6% of revenues, compared to \$35.2 million, or 3.3% of revenues, in the prior fiscal year period.

The resulting operating income for the quarter ended November 30, 2007 increased to \$130.2 million, or 17.4% of revenues, compared to \$126.4 million, or 17.2% of revenues, in the prior fiscal year quarter. For the six months ended November 30, 2007, the resulting operating income increased to \$135.4 million, or 10.2% of revenues, compared to \$60.3 million, or 5.6% of revenues, in the prior fiscal year period.

The Company's provision for income taxes resulted in an effective tax rate of 38.1% and 36.8% for the six months ended November 30, 2007 and 2006, respectively. The higher effective tax rate for the six months ended November 30, 2007 compared to the prior fiscal year period was primarily attributable to the adoption of the Financial Accounting Standards Board's (the "FASB") Interpretation No. 48, "Accounting for Uncertainty in Income Taxes" ("FIN 48"), effective as of June 1, 2007, which increased the rate by 80 basis points, or 0.8%, and additional tax expense related to a change in the statutory tax rate of a foreign subsidiary of the Corporation, which increased the rate by 30 basis points, or 0.3%.

Net income was \$75.6 million for the quarter ended November 30, 2007, compared to \$75.1 million in the prior fiscal year quarter. Earnings per diluted share increased to \$1.93 in the quarter ended November 30, 2007 from \$1.75 in the prior fiscal year quarter, primarily reflecting accretion from the accelerated share repurchase agreement entered into by the Corporation on June 1, 2007 (the "ASR"), as more fully discussed in Part II, "Other Information", Item 2, "Unregistered Sales of Equity Securities and the Use of Proceeds," below. For the six months ended November 30, 2007, net income was \$72.8 million, or \$1.83 per diluted share, compared to net income of \$28.2 million, or \$0.66 per diluted share, in the prior fiscal year period.

Results of Operations – Segments

*Children’s Book Publishing and Distribution*

(\$ amounts in millions)

	Three months ended November 30,		Six months ended November 30,	
	2007	2006	2007	2006
Revenues	\$ 431.3	\$ 442.7	\$ 773.8	\$ 555.3
Operating income	99.7	99.6	102.4	32.3
<b>Operating margin</b>	<b>23.1%</b>	<b>22.5%</b>	<b>13.2%</b>	<b>5.8%</b>

Revenues in the *Children’s Book Publishing and Distribution* segment for the quarter ended November 30, 2007 decreased by \$11.4 million to \$431.3 million, as compared to \$442.7 million in the prior fiscal year quarter. Within the segment, revenues from school-based book clubs declined by \$10.5 million, primarily due to a lower number of orders, which partially reflected the elimination of less profitable mailings, and revenues in the Company’s continuity businesses declined by \$9.4 million. These declines were partially offset by a \$6.0 million increase in trade revenues, primarily due to higher Harry Potter revenues, and a \$2.5 million increase in school-based book fair revenues, primarily related to an increase in the number of book fairs held.

Segment operating income for the quarter ended November 30, 2007 was \$99.7 million, relatively flat to the prior fiscal year quarter. Within the segment, operating profits in the Company’s trade and school-based book fair businesses improved over the prior year period due to the increases in revenue from these businesses. Operating profit in the Company’s school-based book club business rose despite the corresponding revenue decline, reflecting cost management and the elimination of less profitable mailings. These increases were offset by lower operating results in the Company’s continuity businesses.

Segment revenues for the six months ended November 30, 2007 increased by \$218.5 million to \$773.8 million, as compared to \$555.3 million in the prior fiscal year period. This increase was principally due to higher Harry Potter revenues in the Company’s trade business, which totaled approximately \$250 million in the current fiscal year period as compared to approximately \$10 million in the prior fiscal year period, partially offset by an \$11.3 million decrease in revenues in the Company’s school-based book club business due to the lower number of orders, partially due to the elimination of less profitable mailings, and a \$7.9 million decrease in revenues from the Company’s continuity businesses.

Segment operating income for the six months ended November 30, 2007 improved by \$70.1 million to \$102.4 million, as compared to \$32.3 million in the prior fiscal year period. This improvement was primarily due to the higher Harry Potter revenues in the Company’s trade business.

The following table highlights the results of the domestic direct-to-home portion of the Company’s continuity programs, which is located in the United States and is included in the *Children’s Book Publishing and Distribution* segment.

(\$ amounts in millions)

	Three months ended November 30,		Six months ended November 30,	
	2007	2006	2007	2006
Revenues	\$ 33.2	\$ 38.1	\$ 70.5	\$ 74.4
Operating loss	(9.7)	(4.4)	(17.2)	(10.9)
<b>Operating margin</b>	<b>*</b>	<b>*</b>	<b>*</b>	<b>*</b>

\* not meaningful

Revenues from the domestic direct-to-home continuity business decreased to \$33.2 million for the quarter ended November 30, 2007 from \$38.1 million in the prior fiscal year quarter and to \$70.5 million for the six months ended November 30, 2007 from \$74.4 million in the prior fiscal year period, in each case due to fewer enrollments of new customers and weakness in follow-on promotions to existing customers.

The operating loss for the domestic direct-to-home continuity business was \$9.7 million in the current fiscal year quarter, as compared to \$4.4 million in the prior fiscal year quarter, due to the decline in revenues and higher promotion expense, which rose as a percentage of revenues from 30.8% in the prior fiscal year quarter to 37.1% in the current fiscal year quarter. The operating loss for the six months ended November 30, 2007 was \$17.2 million, as compared to \$10.9 million in the prior fiscal year period, due to the decline in revenues and a \$1.9 million increase in cost of product related to the accelerated write-off of free product costs associated with customer acquisition efforts.

On December 20, 2007, the Company announced that it intends to sell the DTH business, including the domestic portion. The DTH business did not qualify as an asset held for sale as of November 30, 2007 based on the criteria of Statement of Financial Accounting Standards (“SFAS”) No. 144, “Accounting for the Impairment or Disposal of Long-Lived Assets,” but the Company currently anticipates that the DTH business will meet those criteria during its fiscal quarter ending February 29, 2008; as a result, the DTH business would be reported as discontinued operations for accounting purposes, which would include an assessment of the carrying value of the discontinued operations and require write-downs for impairments, if present. The Company currently anticipates that there will be potentially significant non-cash write-downs required within the DTH business based on generally accepted accounting principles.

## SCHOLASTIC CORPORATION

### Item 2. MD&A

Excluding the direct-to-home portion of the continuity business, segment revenues decreased by \$6.5 million to \$398.1 million for the quarter ended November 30, 2007, as compared to \$404.6 million in the prior fiscal year quarter, and increased by \$222.4 million to \$703.3 million for the six months ended November 30, 2007, as compared to \$480.9 million in the prior fiscal year period.

Excluding the direct-to-home portion of the continuity business, segment operating income for the quarter ended November 30, 2007 increased by \$5.4 million to \$109.4 million, as compared to \$104.0 million in the prior fiscal year quarter, and increased by \$76.4 million to \$119.6 million for the six months ended November 30, 2007, as compared to \$43.2 million in the prior fiscal year period.

#### *Educational Publishing*

(\$ amounts in millions)	Three months ended November 30,		Six months ended November 30,	
	2007	2006	2007	2006
Revenues	\$ 99.6	\$ 97.2	\$ 227.4	\$ 224.6
Operating income	12.5	17.1	43.1	49.8
<b>Operating margin</b>	<b>12.6%</b>	<b>17.6%</b>	<b>19.0%</b>	<b>22.2%</b>

Revenues in the *Educational Publishing* segment for the quarter ended November 30, 2007 increased by \$2.4 million, or 2.5%, to \$99.6 million, as compared to \$97.2 million in the prior fiscal year quarter. This increase was primarily related to \$5.6 million in higher revenues from sales of paperback collections, partially offset by \$2.9 million in lower revenues from sales of educational technology products. Segment revenues for the six months ended November 30, 2007 increased by \$2.8 million to \$227.4 million, as compared to \$224.6 million in the prior fiscal year period, primarily as a result of \$6.6 million of incremental revenues from the May 2007 acquisition of a school consulting and professional services development company, partially offset by lower revenues from library publishing, which declined by \$6.2 million.

Segment operating income for the quarter ended November 30, 2007 decreased by \$4.6 million, or 26.9%, to \$12.5 million, as compared to \$17.1 million in the prior fiscal year quarter. Segment operating income for the six months ended November 30, 2007 decreased by \$6.7 million, or 13.5%, to \$43.1 million, compared to \$49.8 million in the prior fiscal year period. These decreases were primarily due to planned investments in the sales and service organizations in the current fiscal year periods.

#### *Media, Licensing and Advertising*

(\$ amounts in millions)	Three months ended November 30,		Six months ended November 30,	
	2007	2006	2007	2006
Revenues	\$ 57.7	\$ 56.6	\$ 74.7	\$ 72.3
Operating income	10.9	9.2	5.8	3.1
<b>Operating margin</b>	<b>18.9%</b>	<b>16.3%</b>	<b>7.8%</b>	<b>4.3%</b>

Revenues in the *Media, Licensing and Advertising* segment for the quarter ended November 30, 2007 increased by \$1.1 million, or 1.9%, to \$57.7 million, compared to \$56.6 million in the prior fiscal year quarter, primarily due to a \$4.8 million increase in revenues from sales of software and interactive products, partially offset by a \$3.0 million decrease in revenues from Back to Basics Toys<sup>®</sup>, the Company's catalog toy business. Segment revenues for the six months ended November 30, 2007 increased by \$2.4 million, or 3.3%, to \$74.7 million, as compared to \$72.3 million in the prior fiscal year period, primarily due to a \$6.3 million increase in revenues from sales of software and interactive products, partially offset by a \$3.3 million decrease in revenues from Back to Basics Toys. The increase in revenues from sales of software and interactive products for each of the three and six month periods was primarily due to sales through the Company's school-based book fairs. The decrease in revenues from Back to Basics Toys for each of the three and six month periods was primarily due to the timing of catalog mailings.

Segment operating income increased by \$1.7 million to \$10.9 million for the quarter ended November 30, 2007, as compared to \$9.2 million in the prior fiscal year quarter, and by \$2.7 million to \$5.8 million for the six months ended November 30, 2007, as compared to \$3.1 million in the prior fiscal year period, primarily due to the higher revenues from sales of software and interactive products, which are relatively higher margin products.

**International**

(\$ amounts in millions)

	Three months ended November 30,		Six months ended November 30,	
	2007	2006	2007	2006
Revenues	\$ 157.6	\$ 139.0	\$ 257.2	\$ 218.2
Operating income	24.2	19.8	21.5	14.3
<b>Operating margin</b>	<b>15.4%</b>	<b>14.2%</b>	<b>8.4%</b>	<b>6.6%</b>

Revenues in the *International* segment for the quarter ended November 30, 2007 increased by \$18.6 million to \$157.6 million, compared to \$139.0 million in the prior fiscal year quarter, primarily due to the favorable impact of foreign currency exchange rates of \$15.9 million and local currency revenue growth, principally in the United Kingdom, which rose by the equivalent of \$2.9 million due to strong trade sales. Segment revenues for the six months ended November 30, 2007 increased by \$39.0 million to \$257.2 million, as compared to \$218.2 million in the prior fiscal year period, primarily due to the favorable impact of foreign currency exchange rates of \$23.4 million, higher revenues from the Company's export business of \$7.3 million, and local currency revenue growth in Australia equivalent to \$4.1 million.

Segment operating income for the quarter ended November 30, 2007 increased by \$4.4 million, or 22.2%, to \$24.2 million, as compared to \$19.8 million in the prior fiscal year quarter, primarily due to higher operating income from the United Kingdom and Australia, which increased by the equivalent of \$2.1 million and \$1.7 million, respectively. Segment operating income for the six months ended November 30, 2007 increased by \$7.2 million, or 50.3%, to \$21.5 million, as compared to \$14.3 million in the prior fiscal year period, primarily due to higher operating income from Australia and the United Kingdom, which increased by the equivalent of \$2.8 million and \$1.3 million, respectively.

As discussed in *Children's Book Publishing and Distribution* above, on December 20, 2007, the Company announced that it intends to sell the DTH business. Revenues related to the international portion of the DTH business, which is located in the United Kingdom and Canada, were \$10.4 million and \$11.7 million for the three months ended November 30, 2007 and 2006, respectively, and \$19.6 million and \$20.5 million for the six months ended November 30, 2007 and 2006, respectively. Operating loss related to the international portion of the DTH business was \$0.5 million and \$0.4 million for the three months ended November 30, 2007 and 2006, respectively, and \$1.6 million for each of the six month periods ended November 30, 2007 and 2006.

**Seasonality**

The Company's school-based book clubs, school-based book fairs and most of its magazines operate on a school-year basis. Therefore, the Company's business is highly seasonal. As a result, the Company's revenues in the first and third quarters of the fiscal year generally are lower than its revenues in the other two fiscal quarters. Typically, school-based book club and book fair revenues are greatest in the second quarter of the fiscal year, while revenues from the sale of instructional materials and educational technology products are highest in the first quarter. The Company generally experiences a loss from operations in the first and third quarters of each fiscal year.

**Liquidity and Capital Resources**

The Company's cash and cash equivalents totaled \$187.6 million at November 30, 2007, compared to \$22.8 million at May 31, 2007 and \$133.7 million at November 30, 2006.

Cash provided by operating activities was \$234.6 million for the six months ended November 30, 2007, as compared to \$10.7 million in the prior fiscal year period. This increase was primarily due to a \$44.6 million improvement in net income and working capital changes between the two periods, substantially due to the higher Harry Potter revenues in the current fiscal year. The most significant of these working capital changes that had a positive effect on cash flows were in Accrued royalties, which provided cash of \$103.4 million in the current fiscal year period compared to \$6.2 million in the prior fiscal year period, and in Accounts payable and other accrued expenses, which provided cash of \$55.3 million in the current fiscal year period compared to \$9.7 million in the prior fiscal year period. Accrued expenses associated with Harry Potter revenues are expected to be paid by the Company in the quarter ending May 31, 2008.

Cash used in investing activities increased to \$59.2 million for the six months ended November 30, 2007 from \$55.1 million for the prior fiscal year period, reflecting increased republication expenditures for new product development in the Company's *Educational Publishing* segment.

Cash provided by financing activities was \$1.4 million for the six months ended November 30, 2007, compared to cash used in financing activities of \$18.1 million for the prior fiscal year period. This \$19.5 million change was primarily due to higher proceeds from stock-based compensation plans, which provided \$30.6 million of cash during the six months ended November 30, 2007 as compared to \$11.0 million for the prior fiscal year period, and the repurchase in the open market of \$36.0 million of the Corporation's then-outstanding 5.75% Notes (as described under "Financing" below) during the prior fiscal year period, offset by net repayments under lines of credit in the current fiscal year period equal to \$27.0 million, compared to net borrowings in the prior fiscal year period equal to \$11.6 million. In addition, during the current fiscal year period, the Company used the \$200.0 million proceeds from the Term Loan (as described under "Financing" below) to fund the reacquisition by the Corporation of shares of its Common Stock pursuant to the ASR.

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

The Company's operating philosophy is to use cash provided from operating activities to create value by paying down debt, reinvesting in existing businesses and, from time to time, making acquisitions that will complement its portfolio of businesses. The Company believes that funds generated by its operations and funds available under its current credit facilities will be sufficient to finance its short-and long-term capital requirements.

As of November 30, 2007, the Company's primary sources of liquidity consisted of cash and cash equivalents, including short-term investments, of \$187.6 million and borrowings remaining available under the Revolving Loan (as described in "Financing" below) totaling \$325.0 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).

The Company believes it has adequate access to capital to finance its ongoing operating needs and to repay its debt obligations as they become due. As of November 30, 2007, the Company was rated BB by Standard & Poor's Rating Services and Ba1 by Moody's Investors Service. Under prevailing market conditions, the Company believes that these ratings afford it adequate access to the public and private markets for debt.

On December 20, 2007, the Corporation announced that its Board of Directors had authorized a program to repurchase up to \$20.0 million of Common Stock, from time to time as conditions allow, on the open market or through negotiated private transactions.

### **Financing**

On June 1, 2007, Scholastic Corporation and Scholastic Inc. (each, a "Borrower" and together, the "Borrowers") elected to replace the Company's then-existing credit facilities, the Credit Agreement and the Revolver (as discussed below), with a new \$525.0 million credit facility with certain banks (the "Loan Agreement"), consisting of a \$325.0 million revolving credit component (the "Revolving Loan") and an amortizing \$200.0 million term loan component (the "Term Loan"). The Loan Agreement is a contractually committed unsecured credit facility that is scheduled to expire on June 1, 2012. The \$325.0 million Revolving Loan component allows the Company to borrow, repay or prepay and reborrow at any time prior to the stated maturity date, and the proceeds may be used for general corporate purposes, including financing for acquisitions and share repurchases. The Loan Agreement also provides for an increase in the aggregate Revolving Loan commitments of the lenders of up to an additional \$150.0 million. The \$200.0 million Term Loan component was established in order to fund the reacquisition by the Corporation of shares of its Common Stock pursuant to the ASR (as more fully described in Part II, "Other Information," Item 2, "Unregistered Sales of Equity Securities and Use of Proceeds," below) and was fully drawn on June 28, 2007 in connection with that transaction. The Term Loan, which may be prepaid at any time without penalty, requires quarterly principal payments of \$10.7 million, with the first payment on December 31, 2007, and a final payment of \$7.4 million due on June 1, 2012. Interest on both the Term Loan and Revolving Loan is due and payable in arrears on the last day of the interest period (defined as the period commencing on the date of the advance and ending on the last day of the period selected by the Borrower at the time each advance is made). At the election of the Borrower, the interest rate charged for each loan made under the Loan Agreement is based on (1) a rate equal to the higher of (a) the prime rate or (b) the prevailing Federal Funds rate plus 0.5% or (2) an adjusted LIBOR rate plus an applicable margin, ranging from 0.50% to 1.25% based on the Company's prevailing consolidated debt to total capital ratio. As of November 30, 2007, the applicable margin on the Term Loan was 1.0% and the applicable margin on the Revolving Loan was 0.8%. The Loan Agreement also provides for the payment of a facility fee ranging from 0.125% to 0.25% per annum on the Revolving Loan only, which at November 30, 2007 was 0.2%. As of November 30, 2007, \$200.0 million was outstanding under the Term Loan at a weighted average interest rate of 6.2%. There were no outstanding borrowings under the Revolving Loan as of November 30, 2007. The Loan Agreement contains certain covenants, including interest coverage and leverage ratio tests and certain limitations on the amount of dividends and other distributions, and at November 30, 2007 the Company was in compliance with these covenants.

The Credit Agreement was a \$190.0 million unsecured revolving credit facility with certain banks that was scheduled to expire in 2009 but was terminated, along with the Revolver, at the election of the Borrowers as of June 1, 2007 and replaced by the Loan Agreement. The interest rate charged for all loans made under the Credit Agreement was, at the election of the Borrower, based on the prime rate or, alternatively, an adjusted LIBOR rate plus an applicable margin, ranging from 0.325% to 0.975%. The Credit Agreement also provided for the payment of a facility fee in the range of 0.10% to 0.30% and a utilization fee, if total borrowings exceeded 50% of the total facility, in the range of 0.05% to 0.25%. The amounts charged varied based on the Company's published credit ratings. The margin, facility fee and utilization fee as of May 31, 2007 were 0.975%, 0.30% and 0.25%, respectively. There were no outstanding borrowings under the Credit Agreement at May 31, 2007 or November 30, 2006.

The Revolver was a \$40.0 million unsecured revolving loan agreement with a bank that was scheduled to expire in 2009 but was terminated, along with the Credit Agreement, at the election of the Borrowers as of June 1, 2007 and replaced with the Loan Agreement. The interest rate charged for all loans made under the Revolver was set at either (1) the prime lending rate minus 1% or (2) an adjusted LIBOR rate plus an applicable margin, ranging from 0.375% to 1.025%. The Revolver also provided for the payment of a facility fee in the range of 0.10% to 0.30%. The amounts charged varied based on the Company's published credit ratings. The margin and facility fee as of May 31, 2007 were 1.025% and 0.30%, respectively. There were no outstanding borrowings under the Revolver at May 31, 2007 or November 30, 2006.

In January 2002, Scholastic Corporation issued \$300.0 million of 5.75% Notes (the "5.75% Notes"). The 5.75% Notes were senior unsecured obligations that matured on January 15, 2007 with interest payable semi-annually on July 15 and January 15 of each year through maturity. The Company repurchased \$6.0 million of the 5.75% Notes on the open market in fiscal 2006 and \$36.0 million of the 5.75% Notes on the open market during the first six months of fiscal 2007. In January 2007, the Company repaid the \$258.0 million of the 5.75% Notes that remained outstanding at maturity.

During the last half of fiscal 2007, the Company entered into unsecured money market bid rate credit lines totaling \$50.0 million, of which \$41.0 million was outstanding at May 31, 2007. There were no outstanding borrowings under these credit lines at November 30, 2007. All loans made under these credit lines are at the sole discretion of the lender and at an interest rate and term, not to exceed 364 days, agreed to at the time each loan is made. The weighted average interest rate for all money market bid rate loans outstanding on May 31, 2007 was 6.2%. These credit lines are typically available for loans up to 364 days and may be renewed, if requested by the Company, at the sole option of the lender.

As of November 30, 2007, the Company had various local currency credit lines, with maximum available borrowings in amounts equivalent to \$89.6 million, underwritten by banks primarily in the United States, Canada and the United Kingdom. These credit lines are typically available for overdraft borrowings or loans up to 364 days and may be renewed, if requested by the Company, at the option of the lender. There were borrowings outstanding under these facilities equivalent to \$40.5 million at November 30, 2007 at a weighted average interest rate of 7.0%, as compared to the equivalent of \$25.2 million at May 31, 2007 at a weighted average interest rate of 7.0% and the equivalent of \$45.7 million at November 30, 2006 at a weighted average interest rate of 5.4%.

At November 30, 2007 and May 31, 2007, the Company had open standby letters of credit of \$8.4 million issued under certain credit lines, as compared to \$13.0 million at November 30, 2006. These letters of credit are scheduled to expire within one year; however, the Company expects that substantially all of these letters of credit will be renewed, at similar terms, prior to expiration.

The Company's total debt obligations were \$414.1 million at November 30, 2007, \$239.6 million at May 31, 2007 and \$477.2 million at November 30, 2006. The higher level of debt at November 30, 2007 as compared to May 31, 2007 was primarily due to the \$200.0 million Term Loan drawn to finance the ASR in June 2007. The lower level of debt at November 30, 2007 as compared to November 30, 2006 was primarily due to the repayment of \$258.0 million of the 5.75% Notes that remained outstanding in January 2007, partially offset by the Term Loan drawn to fund the ASR.

For a more complete description of the Company's debt obligations, see Note 3 of Notes to Condensed Consolidated Financial Statements –Unaudited in Item 1, "Financial Statements."

### **New Accounting Pronouncements**

In September 2006, the FASB issued SFAS No. 157, "Fair Value Measurements" ("SFAS 157"). SFAS 157 defines fair value, establishes a framework for measuring fair value under generally accepted accounting principles, and expands disclosures about fair value measurements. SFAS 157 emphasizes that fair value is a market-based measurement, not an entity-specific measurement, and states that a fair value measurement should be determined based on the assumptions that market participants would use in pricing the asset or liability. SFAS 157 will become effective for the Company's fiscal year beginning June 1, 2008. The Company is currently evaluating the impact, if any, that SFAS 157 will have on its consolidated financial position, results of operations and cash flows.

In February 2007, the FASB issued SFAS No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities" ("SFAS 159"), to provide companies with an option to report selected financial assets and liabilities at fair value. The objective of SFAS 159 is to reduce both the complexity in accounting for financial instruments and the volatility in earnings caused by measuring related assets and liabilities differently. SFAS 159 will become effective for the Company's fiscal year beginning June 1, 2008. The Company is currently evaluating the impact, if any, that SFAS 159 will have on its consolidated financial position, results of operations and cash flows.

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

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

### **Recently Adopted Accounting Pronouncements**

In July 2006, the FASB issued FIN 48, which clarifies the accounting for uncertainty in income taxes recognized in a company's financial statements in accordance with SFAS No. 109, "Accounting for Income Taxes." FIN 48 provides guidance on recognizing, measuring, presenting, and disclosing in the financial statements uncertain tax positions that a company has taken or expects to file in a tax return. FIN 48 states that a tax benefit from an uncertain tax position may be recognized only if it is "more likely than not" that the position is sustainable, based on its technical merits. The tax benefit of a qualifying position is the largest amount of tax benefit that is greater than 50% likely of being realized upon settlement with a taxing authority having full knowledge of all relevant information. Prior to the issuance of FIN 48, an uncertain tax position would not be recorded unless it was "probable" that a loss or reduction of benefits would occur. Under FIN 48, the liability for unrecognized tax benefits is classified as noncurrent unless the liability is expected to be settled in cash within 12 months of the reporting date. The Company adopted the provisions of FIN 48 effective as of June 1, 2007.

Upon adoption of FIN 48, the Company recognized an increase in the liability for unrecognized tax benefits of approximately \$40 million, including approximately \$6 million accrued for potential payments of interest and penalties, as more fully described in Note 11 of Notes to Condensed Consolidated Financial Statements — Unaudited in Item 1, "Financial Statements."

Other than the adoption of FIN 48, there have been no material changes to the Company's critical accounting policies as set forth in the Company's Annual Report on Form 10-K for the fiscal year ended May 31, 2007 (the "Annual Report").

**Forward Looking Statements**

This Quarterly Report on Form 10-Q contains forward-looking statements. These forward-looking statements are subject to various risks and uncertainties, including the conditions of the children's book and educational materials markets and acceptance of the Company's products within those markets, and other risks and factors identified in this Report, in the Annual Report and from time to time in the Company's other filings with the Securities and Exchange Commission (the "SEC"). Actual results could differ materially from those currently anticipated.

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. Management believes that the impact of currency fluctuations does not represent a significant risk to the Company given the size and scope of its current international operations. The Company manages its exposures to this market risk through internally established procedures and, when deemed appropriate, through the use of short-term forward exchange contracts. All foreign exchange hedging transactions are supported by an identifiable commitment or a forecasted transaction. The Company does not enter into derivative transactions or use other financial instruments for trading or speculative purposes.

Market risks relating to the Company's operations result primarily from changes in interest rates, which are managed through the mix of variable-rate versus fixed-rate borrowings. Additionally, financial instruments, including swap agreements, have been used to manage interest rate exposures. Approximately 58% of the Company's debt at November 30, 2007 bore interest at a variable rate and was sensitive to changes in interest rates, compared to approximately 28% at May 31, 2007 and approximately 10% at November 30, 2006. The increase in variable-rate debt as of November 30, 2007 compared to May 31, 2007 was primarily due to the \$200.0 million variable-rate Term Loan drawn to finance the ASR in June 2007. The increase in variable-rate debt as of November 30, 2007 compared to November 30, 2006 was due to the Term Loan drawn to finance the ASR as well as the repayment of the fixed rate 5.75% Notes at maturity in January 2007. The Company is subject to the risk that market interest rates and its cost of borrowing will increase and thereby increase the interest charged under its variable-rate debt.

Additional information relating to the Company's outstanding financial instruments is included in Item 2, "Management's Discussion and Analysis of Financial Condition and Results of Operations."

The following table sets forth information about the Company's debt instruments as of November 30, 2007 (see Note 3 of Notes to Condensed Consolidated Financial Statements - Unaudited in Item 1, "Financial Statements"):

(\$ amounts in millions)

	Fiscal Year Maturity							Total
	2008	2009	2010	2011	2012	Thereafter		
<b>Debt Obligations</b>								
Lines of credit	\$ 40.5	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 40.5
Average interest rate	7.0%							
Long-term debt including current portion:								
Fixed-rate debt	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 175.0	\$ 175.0	\$ 175.0
Average interest rate						5.0%		
Variable-rate debt	\$ 21.4	\$ 42.8	\$ 42.8	\$ 42.8	\$ 42.8	\$ 7.4 <sup>(1)</sup>	\$ 200.0	\$ 200.0
Average interest rate <sup>(2)</sup>	6.2%	6.2%	6.2%	6.2%	6.2%	6.2%	6.2%	

(1) Represents the final payment under the Term Loan, which has a final maturity of June 1, 2012 but may be repaid at any time. At November 30, 2007, there were no borrowings outstanding under the Revolving Loan, which has a credit line of \$325.0 million and is scheduled to expire on June 1, 2012.

(2) Represents the weighted average interest rate under both the Term Loan and the Revolving Loan as of November 30, 2007, which are subject to change over the lives of such loans.



The Chief Executive Officer and the Chief Financial Officer of the Corporation, after conducting an evaluation, together with other members of the Company's management, of the effectiveness of the design and operation of the Corporation's disclosure controls and procedures as of November 30, 2007, have concluded that the Corporation's disclosure controls and procedures were effective to ensure that information required to be disclosed by the Corporation in its reports filed or submitted under the Securities Exchange Act of 1934 (the "Exchange Act") is recorded, processed, summarized, and reported within the time periods specified in the rules and forms of the SEC and accumulated and communicated to members of the Company's management, including the Chief Executive Officer and Chief Financial Officer, to allow timely decisions regarding required disclosure. There was no change in the Corporation's internal control over financial reporting that occurred during the quarter ended November 30, 2007 that has materially affected, or is reasonably likely to materially affect, the Corporation's internal control over financial reporting.

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**PART II – OTHER INFORMATION**  
**SCHOLASTIC CORPORATION**

**Item 1. Legal Proceedings**

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For information concerning previously reported actions filed by each of the Alaska Laborers Employee Retirement Fund and Paul Baicu, which were consolidated on November 8, 2007 and entitled In re Scholastic Corporation Securities Litigation, see “Part II – Other Information, Item 1. Legal Proceedings” in the Company’s Quarterly Report on Form 10-Q for the period ended August 31, 2007.

On November 13, 2007, Marlene Root filed a lawsuit seeking class action status in the United States District Court for the Southern District of Florida against the Corporation. The complaint claims that, in connection with credit card transactions in certain operations, the Company violated the provisions of the Fair and Accurate Credit Transactions Act. The complaint seeks unspecified compensatory, statutory, and punitive damages, as well as injunctive relief, costs and attorney fees. The litigation is still in the preliminary stages. Discovery has not yet begun and the Company has not answered or moved against the complaint. The Company believes that the suit is without merit and intends to vigorously defend it.

**SCHOLASTIC CORPORATION****Item 2. Unregistered Sales of Equity Securities and Use of Proceeds**

The following table provides information with respect to repurchases of shares of Common Stock by the Corporation during the quarter ended November 30, 2007:

**Issuer Purchases of Equity Securities**

Period	Total number of shares purchased	Average price paid per share	Total number of shares purchased as part of publicly announced plans or programs	Maximum number of shares that may yet be purchased under the plans or programs
September 1, 2007 through September 30, 2007	—	\$ —	—	—
October 1, 2007 through October 31, 2007	691,777(1)	—(2)	691,777	None(3)
November 1, 2007 through November 30, 2007	—	—	—	—
<b>Total</b>	691,777(1)	\$ —(2)	691,777	None(3)

- (1) On June 1, 2007, the Corporation announced that it had entered into an agreement with a financial institution to repurchase \$200.0 million of its outstanding Common Stock. The entire \$200.0 million repurchase was executed under a “collared” accelerated share repurchase agreement whereby a price range for the repurchase of the shares was established. Under the ASR, the Corporation initially received 5,081,417 shares of Common Stock on June 28, 2007 (the “Initial Execution Date”), representing the minimum number of shares to be received based on a calculation using the “cap” or high-end of the price range collar, which was \$39.36 per share. The maximum number of shares of Common Stock that could have been received under the ASR based on the “floor” or low-end of the price range collar, which was \$32.20 per share, was 6,210,621 shares. On October 29, 2007, (the “Settlement Date”), the Corporation received an additional 691,777 shares at no additional cost, bringing the total number of shares repurchased by the Corporation under the ASR to 5,773,194. The total number of shares received under the ASR was determined based on the adjusted volume weighted average price of the Common Stock, as defined in the ASR, during the four month period from the Initial Execution Date through the Settlement Date, which was \$34.64 per share.
- (2) The shares shown in the table were received by the Corporation at no additional cost on the Settlement Date of the ASR. The average price per share paid by the Corporation for all the shares repurchased under the ASR was \$34.64 per share. This price per share was based on the adjusted volume weighted average price of the Common Stock, as defined in the ASR, during the four month period between the Initial Execution Date and the Settlement Date and was determined by dividing the entire \$200.0 million value of the ASR by 5,773,194 shares, which was the total number of shares actually received by the Corporation under the ASR.
- (3) On December 20, 2007, the Corporation announced that its Board of Directors had authorized a program to repurchase up to \$20.0 million of Common Stock, from time to time as conditions allow, on the open market or through negotiated private transactions.

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**SCHOLASTIC CORPORATION****Item 4. Submission of Matters to a Vote of Security Holders**

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The Annual Meeting of Stockholders of the Corporation was held on September 19, 2007 (the "Annual Meeting"). The following sets forth the results of the proposals presented at the Annual Meeting voted upon by the stockholders of the Corporation entitled to vote thereon:

Holders of the 1,656,200 outstanding shares of the Class A Stock (the "Class A Stockholders") voted in favor of electing Richard Robinson, Rebeca M. Barrera, Ramon C. Cortines, Andrew S. Hedden, Mae C. Jemison, Peter M. Mayer, Augustus K. Oliver and Richard M. Spaulding as directors to serve until the next annual meeting of the Corporation's stockholders and until their respective successors are duly elected and qualified.

Holders of the Common Stock elected the following three nominees as directors to serve until the next annual meeting of the Corporation's stockholders and until their respective successors are duly elected and qualified. Votes cast by holders of the Common Stock were:

<u>Nominee</u>	<u>For</u>	<u>Withheld</u>
James W. Barge	32,068,390 shares	372,570 shares
John L. Davies	29,437,308 shares	3,003,652 shares
John G. McDonald	30,253,061 shares	2,187,899 shares

The Class A Stockholders also voted in favor of the approval of an amendment to the Scholastic Corporation 2001 Stock Incentive Plan to increase the number of shares of Common Stock that may be issued upon the exercise of awards granted under that plan by 2,000,000 shares and the approval of the Scholastic Corporation 2007 Outside Directors Stock Incentive Plan (the "Director Plan").

Exhibits:

- 3.1 Bylaws of Scholastic Corporation, Amended and Restated as of December 12, 2007 (incorporated by reference to Exhibit 3.1 to the Corporation's Current Report on Form 8-K as filed with the SEC on December 13, 2007).
- 10.1 Agreement and General Release by and between Lisa Holton and Scholastic Inc., effective as of October 5, 2007, with regard to certain severance arrangements.
- 10.2 Form of Stock Option Agreement under the Director Plan.
- 10.3 Form of Restricted Stock Unit Agreement under the Director Plan.
- 31.1 Certification of the Chief Executive Officer of Scholastic Corporation filed pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 31.2 Certification of the Chief Financial Officer of Scholastic Corporation filed pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 32 Certifications of the Chief Executive Officer and Chief Financial Officer of Scholastic Corporation furnished pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

**SCHOLASTIC CORPORATION**  
**SIGNATURES**

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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.

Date: January 8, 2008

**SCHOLASTIC CORPORATION**  
(Registrant)

By: /s/ Richard Robinson

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

Date: January 8, 2008

s/ Maureen O'Connell

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Maureen O'Connell  
*Executive Vice President,*  
*Chief Administrative Officer*  
*and Chief Financial Officer*  
*(Principal Financial Officer)*

**SCHOLASTIC CORPORATION**  
**QUARTERLY REPORT ON FORM 10-Q, DATED NOVEMBER 30, 2007**  
**Exhibits Index**

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<b>Exhibit Number</b>	<b>Description of Document</b>
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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.

**AGREEMENT AND GENERAL RELEASE**

Agreement and General Release (“Agreement”), by and between Lisa Holton (“Employee” or “you”) and Scholastic Inc. (the “Company”).

1. You acknowledge that effective October 5, 2007, (the “Resignation Date”), you shall resign your position as an Officer of Scholastic Inc. and Scholastic Corporation and your position as Executive Vice President and President, Book Fairs and Trade. After the Resignation Date, you shall not represent yourself as being an officer of the Company or its affiliates for any purpose. Following the Resignation Date, you shall continue your employment with the Company on special assignment until December 28, 2007, unless sooner terminated as provided herein (the “Employment Period”). On the last day of the aforementioned Employment Period, your employment shall terminate, including for purposes of participation in and coverage under all benefit plans and programs sponsored by or through the Company Entities (as herein defined), except for those benefits to which you may be entitled following the Employment Period. You acknowledge and agree that the Company Entities shall have no obligation to rehire you, or to consider you for employment, after the conclusion of the Employment Period. You acknowledge that the representations in this paragraph constitute a material inducement for the Company to provide the payment(s) to you pursuant to paragraph 2 of this Agreement.

2. Following the Effective Date of this Agreement and in exchange for your waiver of claims against the Company Entities and compliance with other terms and conditions of this Agreement, the Company agrees:

(a) You shall continue your employment with the Company on special assignment through the Employment Period at your current salary rate. Your title shall be Executive Consultant, and you shall report directly to Dick Robinson. Your duties shall include editorial duties, transitioning your former responsibilities to your successor, advising on special projects, and other duties as may be assigned of a nature consistent with the duties of a senior executive officer. The Company will consult with you about proposed assignments. You agree to provide services from time to time through the Employment Period (the dates and times of which shall be mutually agreed upon in good faith by you and the Company). During the Employment Period, (a) business expenses will be reimbursed in accordance with Company policy, and (b) you shall have access to/use of Company voicemail and email, an administrative assistant, and your Company-issued blackberry, laptop and such other business materials as may be reasonably necessary for the performance of your work for the Company during the Employment Period. Subject to the provisions in paragraphs 7 and 9 of this Agreement, you may commence employment with another entity on or after December 29, 2007.

(b) To continue to pay the cost of medical, dental and vision benefit coverage during the Employment Period to the same extent as prior to the Resignation Date, with Employee to pay an amount equal to the employee share of the cost of such coverage under the Company’s group medical plan as in effect from time to time. After the Employment Period, to

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the extent eligible, you may purchase continuation medical benefits under the federal law known as COBRA. The Company shall pay the cost of such COBRA coverage until the date that is the earlier of six (6) months after the end of the Employment Period or when you become employed by a company offering the opportunity to participate in another group medical plan.

(c) That you will continue to be eligible to participate in the Company's 401(k) plan, pension plan, life insurance, long term disability, and flexible spending plan through the Employment Period. Deductions will be taken from bi-weekly pay.

(d) To pay you for two weeks accrued vacation time in your final paycheck and subject to applicable withholding.

(d) After the end of the Employment Period to pay you the equivalent of 6 months of your current base annual salary, as severance pay, less applicable tax and other withholdings.

(e) The Company will recommend to the committee that administers the Company's 2001 Stock Incentive Plan that it fully accelerate the vesting of the currently unvested 4000 restricted stock units awards made to you under such plan on May 25, 2005. You will be eligible to exercise outstanding stock option awards made to you, to the extent exercisable upon your termination of employment, through the 90-day post-employment exercise period applicable to such awards, which will commence at the end of the Employment Period.

Nothing contained in this Agreement shall limit the right of the Company at any time to amend, modify, cancel or administer any of the employee benefit programs, plans or compensation arrangements in which you participate (other than this Agreement).

3. You acknowledge and agree that the payments and other benefits provided pursuant to this Agreement: (i) are in full discharge of any and all liabilities and obligations of the Company and the Company Entities to you, monetarily or with respect to compensation and employee benefits or otherwise, including but not limited to any and all obligations arising under any alleged written or oral employment agreement, policy, plan, or practice or procedure of the Company and/or any alleged understanding or arrangement between you and the Company and the Company Entities; (ii) exceed any payment, benefits, or other thing of value to which you might otherwise be entitled under any policy, plan, practice or procedure of the Company and/or any agreement between you and the Company and the Company Entities; and (iii) are being made to you, and you are accepting such payments and benefits, as consideration for your release of claims and other agreements made by you in this Agreement. You agree that no other payments or benefits are due and owing to you from the Company and the Company Entities.

4. (a) In consideration for the payments and benefits to be provided you pursuant to paragraph 2 above, you, for yourself and for your heirs, executors, administrators, trustees, legal representatives, successors and assigns (hereinafter referred to collectively as "Releasors"), forever release and discharge the Company and its past, present and future shareholders, parent entities, subsidiaries, divisions, affiliates and related business entities, successors and assigns, assets, employee benefit plans or funds, and, in their capacity as such, any of its or their respective past, present and/or future directors, officers, fiduciaries, agents, trustees, administrators, employees, consultants and assigns, whether acting on behalf of the Company or in their individual or fiduciary capacities (collectively the "Company Entities"),

from any and all claims, demands, causes of action, fees and liabilities of any kind whatsoever, whether known or unknown, which you ever had, now have, or may have against any of the Company Entities by reason of any act, omission, transaction, practice, plan, policy, procedure, conduct, occurrence, or other matter up to and including the date on which you sign this Agreement. This release does not extend to any workers' compensation claims that were not known to you as of the date on which you sign this agreement or to any indemnification rights you may have by virtue of your employment with the Company.

(b) Without limiting the generality of the foregoing, this Agreement is intended to and shall release the Company Entities from any and all claims, whether known or unknown, which Releasors ever had, now have, or may have against the Companies Entities arising out of your employment and/or your separation from that employment, including, but not limited to: (i) any claim under the Age Discrimination in Employment Act, The Older Workers Benefit Protection Act, Title VII of the Civil Rights Act of 1964, as amended, the Americans with Disabilities Act, as amended, the Family and Medical Leave Act of 1993, as amended, the Employee Retirement Income Security Act of 1974, as amended, (excluding claims for accrued, vested benefits under any employee benefit or pension plan of the Company Entities, subject to the terms and conditions of such plan and applicable law), the Worker Adjustment and Retraining Notification Act, as amended, (ii) any claim under the New York State Human Rights Law, the New York State Labor Law, New York State Wage and Hour Laws, the New York State Executive Law, the New York City Administrative Code, the New York State Constitution, (iii) any claim arising under certain agreements between Employee and the Company dated April 1, 2005, (iv) any other claim arising out of or related to any constitution, statute, civil or common law or treaty of any confederation of nations, country or political subdivision thereof, including without limitation, the United States of America and the State and City of New York, and all other jurisdictions domestic and foreign, relating to your employment, the terms and conditions of such employment, your separation from such employment, and/or any of the events relating directly or indirectly to or surrounding your separation from employment, including but not limited to breach of contract (express or implied), wrongful discharge, detrimental reliance, defamation, emotional distress or compensatory or punitive damages; and (v) any claim for attorneys' fees, costs, disbursements and/or the like. Nothing in this Agreement shall be a waiver of claims that may arise after the date on which you sign this Agreement.

(c) You acknowledge that you are aware that you may later discover facts in addition to or different from those which you now know or believe to be true with respect to your employment with the Company, the Company itself and its employees and officers, and/or any of the other Company Entities, and that it is your intention to forever fully and finally settle and release any and all matters, disputes, and differences, known or unknown, suspected and unsuspected, which now exist, may later exist or may previously have existed between yourself and any and all of the Company Entities, and that in furtherance of this intention, the releases, waivers and discharges given in this Agreement shall be and remain in effect as full and complete general releases notwithstanding discovery or existence of any such additional or different facts.

(d) Execution of this Agreement by you operates as a complete bar and defense against any and all of your claims against the Company and/or the other Company Entities. If you should hereafter make or bring any claims in any charge, complaint, action, claim or proceeding against the Company and/or any of the Company Entities, this Agreement

may be raised as, and shall constitute, a complete bar to any such charge, complaint, action, claim or proceeding and the Company and/or the Company Entities shall be entitled to and shall recover from you all costs incurred, including attorneys' fees to the extent provided by law, in defending against any such charge, complaint, action, claim or proceeding, in addition to and without any limitation on any other remedy or relief at law or in equity.

5. You represent and warrant that you have not commenced, maintained, prosecuted or participated in any action, suit, charge, grievance, complaint or proceeding of any kind against Company Entities in any court or before any administrative or investigative body or agency and you agree that you will not do so in the future with respect to any claims and/or causes of action waived in paragraph 4 above. You further acknowledge and agree that by virtue of the foregoing, you have waived all relief available to you (including without limitation, monetary damages, attorneys fees, equitable relief and reinstatement) under any of the claims and/or causes of action waived in paragraph 4 above; provided, however, that nothing contained in this Agreement shall prevent you from enforcing this Agreement.

6. You agree not to disparage or encourage or induce others to disparage any of the Company Entities, and the Company agrees not to disparage or encourage others to disparage you. For purposes of the preceding sentence, the term "Company" shall mean the Chief Executive Officer of the Company and other "covered employees" of the Company within the meaning of Internal Revenue Code Section 162(m)(3). For the purposes of this Agreement, the term "disparage" includes, without limitation, comments or statements to the press and/or media, the financial and investor community, the Company Entities or any individual or entity with whom any of the Company Entities has or has had a business, social or professional relationship, which criticize, demean, malign or comment disparagingly or negatively, as applicable, (a) you or (b) any of the Company Entities or their integrity, business or ethics and which would adversely affect in any manner (i) the conduct of the business of any of the Company Entities (including, without limitation, any business plans or prospects) or (ii) the business, reputation or image of the Company Entities. You agree not to publish or cause to be published, electronically or otherwise, any story, article, column, comment, book (fiction or non-fiction) primarily or substantially about the Company Entities or your association with the Company and not to provide information about the Company or the Company Entities to any person who may contact you about any such story, article, column, comment or book, except that you may make reference to, and briefly describe, your employment at the Company and your responsibilities and accomplishments in a truthful, non-disparaging manner that does not violate your confidentiality obligations as set forth in the agreement. For the avoidance of doubt, for you to describe your employment with the Company in connection with a profile or article about your career in publishing would not be a violation of this Agreement; for you to respond to a reporter's questions concerning an article about Scholastic without prior approval from the Company would. Your resignation from the Company shall be announced in a notice to employees of the Company and a press release, which may also be provided to authors, illustrators and agents. The Company agrees to consult with you about the contents of the press release as it affects you. Except as in words or substance as set forth in such notice and press release, neither you nor the Company shall make any statements, provide any information or grant any interviews to any press or media representatives, analysts, rating agencies, investor groups and firms, and existing and potential shareholders relating to your employment by the Company or your separation from employment or the Company's business; provided, however, that the Company shall make such statements and disclosures to regulatory authorities

concerning your employment, including the severance and other financial arrangements between you and the Company, as may be required in the sole judgment of the Company. You shall direct inquiries to the Company concerning you to Dick Robinson who will respond thereto and who will make favorable comments about you. Individuals who reported directly to you will be reminded to refer any inquires about your employment to Dick Robinson or the Senior Vice President of Human Resources.

7. You agree that, unless otherwise mutually agreed in writing, that you will not until December 29, 2008, solicit or attempt to influence, persuade, induce or assist any other person in so soliciting, influencing, persuading or inducing, (i) any employee of Scholastic (other than clerical employees) to resign from or terminate any employment, consulting, or business relationship with the Company, without the Company's prior approval, or (ii) any author or illustrator whose identity has been mutually agreed upon in writing between the parties to enter into any business relationship with you, or (iii) any author or illustrator currently under contract with the Company, or with whom the Company has reached an agreement in principle, even if not fully executed, and not including any authors or illustrators covered under 7(ii) above, to enter into any business relationship with you, but only to the extent that such business relationship would prevent that author or illustrator from fulfilling their contractual obligations to the Company and (iv) any customer or any business that was in the habit of dealing with the Company to terminate their business relationship with the Company. It is further agreed that if before December 29, 2008, you are interested in soliciting someone employed by the Company to work for you, you will notify the Company of that person's identity, and the Company will reasonably consider your request in good faith and respond within 10 days of receiving your request. Please direct any such request to Cynthia Augustine, Senior Vice President, Human Resources (or her successor) at Scholastic Inc., 557 Broadway, New York, NY 10012.

8. (a) You agree that, consistent with your professional and personal commitments, you will cooperate with the Company and/or the Company Entities and its or their respective counsel in connection with any investigation, administrative proceeding or litigation relating to any matter that occurred during your employment in which you were involved or of which you have knowledge. The Company agrees to provide you with reasonable notice and to reimburse any out of pocket expenses that you may incur in connection with your obligations under this paragraph.

(b) You agree that, in the event you are subpoenaed by any person or entity (including, but not limited to, any government agency) to give testimony (in a deposition, court proceeding or otherwise) or to furnish documents, which in any way relates to your employment by the Company and/or the Company Entities, you will give prompt notice of such request to Devereux Chatillon, Senior Vice President, General Counsel (or her successor) at Scholastic Inc., 557 Broadway, New York, NY 10012 and unless required by court or government order will make no disclosure until the Company and/or the Company Entities have had a reasonable opportunity to contest the right of the requesting person or entity to such disclosure. The Company agrees to provide counsel for you at the Company's expense in the event it objects to such subpoena pursuant to its policies and procedures. You retain the right to hire your own counsel at any time at your expense. As a former officer of the Company, you will continue to be covered by the Company's policies regarding indemnification of officers and directors with respect to any actions taken by you as an officer of the Company pursuant to the terms of such policies and the Company's customary policies and procedures.

9. (a) You acknowledge that, during the course of your employment with the Company and/or any of the Company Entities, you have had access to information, including but not limited to trade secrets, proprietary information, ideas, know-how, marketing plans, pricing policies, new products, distribution policies, licenses, costs, customer lists, marketing plans, projections, business plans, new projects, forecasts, supplier arrangements, works of authorship, publishing lists, ideas, internal discussions and communications, and strategies relating to the Company and/or the Company Entities and their respective businesses that is not generally known by persons not employed by the Company and/or the Company Entities and that could not easily be determined or learned by someone outside of the Company and/or the Company Entities (“Confidential Information”). You agree not to disclose or use such Confidential Information at any time in the future, except if such information is then in the public domain other than as the result of your unauthorized disclosure. You agree that you shall not, without the Company’s approval, accept employment in, acquire any financial interest in or perform services for or in connection with a business or entity in which your duties would explicitly or inherently require you to reveal, report, use or publish any Confidential Information.

(b) You acknowledge that all Confidential Information made or conceived by you during your employment shall be the property of the Company and you hereby assign all of your rights, title and interest in such Confidential Information to the Company without additional consideration. You further acknowledge that all original works of authorship that have been made by you while employed by the Company are “works made for hire”. You hereby waive all moral rights relating to all work developed or produced by you, including without limitation any and all rights of identification of authorship and any and all rights of approval, restriction or limitation on use and subsequent modifications.

10. You represent that, following the Employment Period, you will return to the Company all property belonging to the Company and/or the Company Entities, including but not limited to laptop, cell phone, blackberry, keys, credit cards, card access to the building and office floors, phone card, rolodex (if provided by the Company and/or the Company Entities), computer user name and password, access codes, disks and/or voicemail code, any document or record containing Confidential Information, reports, customer lists, proprietary information, notes, business plans, memoranda, manuals and records, software, business information in any form and other physical or personal property of the Company in any form. You agree that you will not retain any copies, duplicates, reproductions or excerpts of the foregoing in any media.

11. (a) If any provision of this Agreement is held by a court of competent jurisdiction to be illegal, void or unenforceable, such provision shall have no effect; however, the remaining provisions shall be enforced to the maximum extent possible. Further, if a court should determine that any portion of this Agreement is overbroad or unreasonable, such provision shall be given effect to the maximum extent possible by narrowing or enforcing in part that aspect of the provision found overbroad or unreasonable, including narrowing the geographic scope or duration of such provision. Additionally, you agree that if you materially breach this Agreement which breach is not cured (if curable) within 30 days of written notice of such breach by the Company, the Company Entities may seek all relief available under the law and you shall be responsible for all damages suffered by the Company and the Company Entities. Any such breach that is not cured (if curable) shall have the effect of immediately terminating the Employment Period and you shall thereafter have no right to receive any further payments or benefits under this Agreement.

(b) The provisions of paragraphs 3 to 10 and of this Agreement are essential, critical and material terms of this Agreement. If there is a breach or threatened breach of the provisions of such paragraphs, the Company shall be entitled to an injunction restraining you from such breach, without posting a bond. You acknowledge that such breach or threatened breach shall cause irreparable harm to the Company and that money damages shall not provide an adequate remedy to the Company. Nothing contained in this Agreement shall be construed as prohibiting the Company from pursuing any other remedies at law or equity for such breach or threatened breach.

12. (a) This Agreement shall be construed and enforced in accordance with the laws of the State of New York. Jurisdiction to enforce this Agreement shall lie exclusively in the courts of the United States and the Supreme Court of the State of New York located in New York County and having subject matter jurisdiction. The parties hereby consent to the personal jurisdiction of the referenced courts over each party and agree not to assert that any action brought in such jurisdiction has been brought in an inconvenient forum.

(b) Should any provision of this Agreement require interpretation or construction, it is agreed by the parties that the entity interpreting or constructing this Agreement shall not apply a presumption against one party by reason of the rule of construction that a document is to be construed more strictly against the party who prepared the document.

(c) This Agreement is not intended, and shall not be construed, as an admission that any of the Company Entities has violated any federal, state or local law (statutory or decisional), ordinance or regulation, breached any contract or committed any wrong whatsoever against you.

(d) Except to the extent required by law, you agree to keep this Agreement confidential and not to disclose its contents to any persons other than your immediate family, your domestic partner, your financial advisor, and your legal and tax advisors.

13. This Agreement is binding upon, and shall inure to the benefit of, the parties and their respective heirs, executors, administrators, successors and assigns.

14. You understand that this Agreement constitutes the complete understanding between the Company and you, and supersedes any and all agreements, understandings, and discussions, whether written or oral, between you and any of the Company Entities. No other promises or agreements shall be binding unless in writing and signed by both the Company and you after the Effective Date of this Agreement. No oral understandings, statements, promises or inducements contrary to the terms of this Agreement exist. You acknowledge that you are not relying on any representations made by the Company or the Company Entities regarding this Agreement or the implications thereof.

15. Pursuant to Section 7(f)(2) of the Age Discrimination in Employment Act of 1967, as amended, the Company hereby advises you that you should consult independent counsel before executing this Agreement, and you acknowledge that you have been so advised. You further acknowledge that you have had an opportunity to consider this Agreement for up to twenty-one (21) days before signing it. You may also revoke this Agreement within seven (7) days after executing it by notifying Cynthia Augustine, Senior Vice President, Human Resources. If you revoke the Agreement, all of the terms and conditions contained herein will

become null and void. It is understood and agreed that the offer contained in this Agreement will automatically expire on the twenty-first day following the date on which this Agreement is received by you, unless the parties are in active negotiations regarding the terms of the Agreement, in which case the deadline is extended until negotiations cease. You may accept this Agreement by signing it and returning it to Cynthia Augustine, Senior Vice President, Human Resources (or her successor) at Scholastic Inc., 557 Broadway, New York, NY 10012.

16. The effective date of this Agreement shall be the 8th day following the date on which you sign the Agreement (the "Effective Date").

17. You acknowledge that you: (a) have carefully read this Agreement in its entirety; (b) are hereby advised by the Company in writing to consult with an attorney of your choice in connection with this Agreement; (c) fully understand the significance of all of the terms and conditions of this Agreement and have discussed them with your independent legal counsel, or have had a reasonable opportunity to do so; (d) have had answered to your satisfaction by your independent legal counsel any questions you have asked with regard to the meaning and significance of any of the provisions of this Agreement; (e) are signing this Agreement voluntarily and of your own free will and agree to abide by all the terms and conditions contained herein after having been advised by your attorney; and (f) this Agreement is not made in connection with any exit incentive or other employee termination offered to a group or class of employees.

/s/ Lisa Holton

\_\_\_\_\_

Lisa Holton  
Date: October 5, 2007

SCHOLASTIC INC.

By: /s/ Cynthia Augustine

\_\_\_\_\_

Cynthia Augustine  
Senior Vice President, Human  
Resources  
Date: October 5, 2007

STATE OF NEW YORK )

) ss.:

COUNTY OF NEW YORK )

On this 5<sup>th</sup> day of October 2007, before me personally came Lisa Holton to me known and known to me to be the person described and who executed the foregoing Agreement, and she duly acknowledged to me that she executed the same.

/s/ Paul Marcotrigiano

\_\_\_\_\_  
Notary Public



**SCHOLASTIC CORPORATION**  
**2007 OUTSIDE DIRECTORS' STOCK INCENTIVE PLAN**  
**Stock Option Agreement**

**SCHOLASTIC CORPORATION**, a Delaware corporation (the "Company"), hereby grants to \_\_\_\_\_ (the "Outside Director") an option (the "Option") to purchase three thousand (3,000) shares of common stock, par value \$.01 per share, of the Company (the "Common Stock"), at the price and on the terms set forth herein, and in all respects subject to the terms and provisions of the Scholastic Corporation 2007 Outside Directors' Stock Incentive Plan (the "Plan"), which terms and provisions are incorporated by reference herein. Unless the context herein otherwise requires, the terms defined in the Plan shall have the same meanings in this Agreement.

**1. Date of Grant; Term of Option.** The Option is granted effective as of September \_\_, 20\_\_\_. The term of the Option is ten years from the date of grant.

**2. Option Exercise Price.** The exercise price of the Option is \$\_\_\_\_ per share, which price is the Fair Market Value per share on the date of grant.

**3. Exercise of Option.** The Option shall be exercisable only during its term and only in accordance with the terms and provisions of the Plan and this Agreement as follows:

**(a) Right to Exercise.** The Option shall not be exercisable until September \_\_, 20\_\_\_, the expiration of the twelve (12)-month period beginning on the date of grant.

**(b) Method of Exercise.** The Option shall be exercisable by written notice to the Company specifying the number of shares of Common Stock in respect to which the Option is being exercised and by following the procedures established by the Company and its designated record keeper in effect at the time of exercise. The certificate or certificates for the Common Stock as to which the Option shall be exercised shall be registered in the name of the Outside Director and may bear a legend as required under the Plan and/or under applicable law.

**(c) Restrictions on Exercise.** The Option may not be exercised if the issuance of the Common Stock upon such exercise would constitute a violation of any applicable federal or state securities laws or other laws or regulations. As a condition to the exercise of the Option, the Company may require the Outside Director to make any representation and warranty to the Company as may be required by any applicable law or regulation.

**(d) No Shareholder Rights before Exercise and Issuance.** No rights as a shareholder shall exist with respect to the Common Stock subject to the Option as a result of the grant of the Option. Such rights shall exist only after issuance of a stock certificate following the exercise of the Option as provided in this Agreement and the Plan.

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#### 4. Termination of Services as an Outside Director.

(a) If the Outside Director ceases to serve as a member of the Board of Directors of the Company (the "Board") for any reason other than death or disability, the Outside Director shall have the right to exercise the Option at any time within six (6) months after the date of such cessation to the extent that the Outside Director was entitled to exercise the Option at the date of such cessation of services (subject to any earlier expiration of the Option as provided under this Agreement); provided that if the Outside Director ceases to serve on the Board but is designated a Director Emeritus, his or her Option shall continue to be exercisable as though the Outside Director continued to serve as a Director until six (6) months after termination of his or her Director Emeritus status or, if earlier, expiration of the Option under this Agreement.

(b) If the Outside Director ceases to serve as a Director on the Board by reason of his or her disability (as determined by the Board), the Option may be exercised in full (even though the twelve (12)-month holding period set forth in Section 3(a) may not yet have expired) or in part by the Outside Director, or his or her legally appointed representative, at any time within the twelve (12) months after the date of such cessation of services (subject to any earlier expiration of the Option as provided under this Agreement).

(c) If the Outside Director ceases to serve as a Director on the Board by reason of his or her death, or if the Outside Director dies within three (3) months after ceasing to serve as a Director other than by reason of his or her disability or within twelve (12) months after ceasing to serve as a Director by reason of his or her disability, the Option may be exercised by the Outside Director's heir or representative at any time within twelve (12) months after the Outside Director's death (subject to any earlier expiration of the Option as provided under this Agreement) to the following extent: (i) in the case of the Outside Director's death while serving as a Director, as to all or any part of the remaining unexercised portion of the Option, notwithstanding that the Option may not have been exercisable as of the date of the Outside Director's death, and (ii) in the case of the Outside Director's death after he or she ceased to serve as a Director as a result of disability or otherwise, to the extent that the Outside Director was entitled to exercise the Option as of the date of his or her death, giving effect to the provisions of the preceding subsections (a) and (b).

(d) Notwithstanding the provisions of this Section 4(b) and (c), in no event may an Option be exercised within six (6) months from the date of grant.

**5. Nontransferability of Option.** The Option may not be sold, pledged, assigned, hypothecated, gifted, transferred or disposed of in any manner either voluntarily or involuntarily by operation of law, other than by will or by the laws of descent and distribution or pursuant to a qualified domestic relations order as provided by the Internal Revenue Code of 1986 or the rules thereunder, and may be exercised during the lifetime of the Outside Director only by the Outside Director. Subject to the foregoing and the terms of the Plan, the terms of the Option shall be binding upon the executors, administrators, heirs, successors and assigns of the Outside Director.

**6. No Enlargement of Rights.** Neither the Plan nor the Option granted hereunder shall confer upon the Outside Director any right to continue as a Director of the Company.

The Outside Director shall have only such rights and interests as are expressly provided in this Agreement and the Plan.

**7. Withholding Tax Liability.** In connection with the exercise of the Option, the Company and the Outside Director may incur liability for income withholding tax. The Outside Director understands and agrees that if the Company is required to withhold part or all of the Outside Director's annual or meeting fees to pay any such withholding tax, and that if such fees are insufficient, the Company may require the Outside Director, as a condition of exercise of the Option, to pay in cash the amount of any such withholding tax liability.

**8. Effect of the Plan on Option.** The Option is subject to, and the Company and the Outside Director agree to be bound by, all of the terms and conditions of the Plan, as such may be amended from time to time in accordance with the terms thereof, provided that no such amendment shall deprive the Outside Director, without his or her consent, of the Option or any rights hereunder. Pursuant to the Plan, the Committee appointed by the Board of Directors of the Company is authorized to adopt rules and regulations, consistent with the Plan and as it shall deem appropriate and proper, with regard to the Plan. A copy of the Plan in its present form is available for inspection during the Company's business hours by the Outside Director or the persons entitled to exercise the Option at the Company's principal office.

**9. Entire Agreement.** The terms of this Agreement and the Plan constitute the entire agreement between the Company and the Outside Director with respect to the subject matter hereof and supersede any and all previous agreements between the Company and the Outside Director.

**10.** If any provision of this Agreement, or the application of such provision to any person or circumstances, is held valid or unenforceable, the remainder of this Agreement, or the application of such provision to persons or circumstances other than those as to which it is held valid or unenforceable, shall not be affected thereby.

**11. Section 409A of the Code.** It is the intention of the parties to this Stock Option Agreement that no payment or entitlement pursuant to this Stock Option Agreement will give rise to any adverse tax consequences to the Outside Director under Section 409A of the Code or the regulations and other interpretive guidance issued thereunder, including that issued after the date hereof (collectively, "Section 409A"). The Stock Option Agreement and the Plan shall be interpreted to that end and, consistent with that objective and notwithstanding any provision herein or the Plan to the contrary, the Company may unilaterally take any action it deems necessary or desirable to amend any provision herein or in the Plan to avoid the application of, or the excise tax under, Section 409A. Further, no effect shall be given to any provision in the Plan or this Agreement in a manner that reasonably could be expected to give rise to adverse tax consequences under Section 409A. Although the Company shall consult with the Outside Director in good faith regarding implementation of this Section 11, neither the Company nor its current or former employees, officers, directors, agents or representatives shall have any liability to the Outside Director with respect to any additional taxes, excise taxes, accelerated taxation, penalties or interest for which the Outside Director may become liable in the event that any amounts under this Agreement are determined to violate Section 409A.

**IN WITNESS WHEREOF**, this Agreement has been executed by the undersigned effective as of the day and year first set forth above.

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

**SCHOLASTIC CORPORATION**  
**2007 OUTSIDE DIRECTORS' STOCK INCENTIVE PLAN**  
**Restricted Stock Unit Agreement**

**SCHOLASTIC CORPORATION**, a Delaware corporation (the "Company"), hereby grants to \_\_\_\_\_ (the "Outside Director") One Thousand Two Hundred (1,200) Restricted Stock Units in respect of shares of common stock, par value \$.01 per share, of the Company (the "Common Stock"), in all respects subject to the terms and provisions of the Scholastic Corporation 2007 Outside Directors' Stock Incentive Plan (the "Plan"), which terms and provisions are incorporated by reference herein. Unless the context herein otherwise requires, the terms defined in the Plan shall have the same meanings in this Agreement.

**1. Grant Date.** The Restricted Stock Units are granted effective as of September \_\_, 20\_\_ ("Grant Date").

**2. Vesting and Payment.** The Restricted Stock Units shall vest and shares of Common Stock shall be issued to the Outside Director in settlement thereof as follows:

(a) Except as provided in Section 2(c) of this Agreement, 100% of the Restricted Stock Units granted by this Agreement shall vest on September \_\_, 20\_\_, the expiration of the twelve (12) month period beginning on the Grant Date, provided that the Outside Director shall have continuously served as an Outside Director of the Company from the Grant Date through the date of vesting.

(b) One share of Common Stock shall be issued to the Outside Director with respect to each vested Restricted Stock Unit as soon as practicable following the vesting of the Restricted Stock Units. The certificate or certificates for the Common Stock issued to the Outside Director shall be registered in the name of the Outside Director and may bear a legend as required under the Plan and/or under applicable law.

(c) In the event that an Outside Director shall cease to serve as an Outside Director prior to expiration of the twelve (12) month period beginning on the Grant Date for any reason other than death or disability, all of the Restricted Stock Units shall be forfeited immediately upon such cessation of services. In the event that an Outside Director shall cease to serve on the Board but shall have been designated as a Director Emeritus, such Outside Director shall be deemed to continue in service as an Outside Director until termination of his or her Director Emeritus status for purposes of determining the vesting of the Restricted Stock Units. In the event that an Outside Director shall cease to serve as an Outside Director prior to expiration of the twelve (12) month period beginning on the Grant Date by reason of death or (as determined by the Board on the basis of all the facts and circumstances) disability, all of the Restricted Stock Units shall become immediately vested upon such cessation of services and shares

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of Common Stock in respect of the Restricted Stock Units shall be issued to the Outside Director as provided in Section 2(b) of this Agreement.

**3. Nontransferability of Restricted Stock Unit.** The Restricted Stock Units may not be sold, pledged, assigned, hypothecated, gifted, transferred or disposed of in any manner either voluntarily or involuntarily by operation of law, other than by will or by the laws of descent and distribution or pursuant to a qualified domestic relations order as provided by the Internal Revenue Code of 1986 or the rules thereunder. Subject to the foregoing and the terms of the Plan, the terms of this Restricted Stock Unit Agreement shall be binding upon the executors, administrators, heirs, successors and assigns of the Outside Director.

**4. Restrictions on Common Stock Issuance.** Common Stock shall not be issued to the Outside Director following the vesting of the Restricted Stock Units if the issuance of the Common Stock would constitute a violation of any applicable federal or state securities laws or other laws or regulations. As a condition to the issuance of Common Stock, the Company may require the Outside Director to make any representation and warranty to the Company as may be required by any applicable law or regulation.

**5. No Shareholder Rights before Issuance of Common Stock.** No rights as a shareholder shall exist with respect to the Common Stock as a result of the grant of the Restricted Stock Units. Such rights shall exist only after issuance of a stock certificate following the vesting of the Restricted Stock Units as provided in this Agreement and the Plan.

**6. No Enlargement of Rights.** Neither the Plan nor the Restricted Stock Units granted hereunder shall confer upon the Outside Director any right to continue as a Director of the Company. The Outside Director shall have only such rights and interests as are expressly provided in this Agreement and the Plan.

**7. Withholding Tax Liability.** In connection with the vesting of the Restricted Stock Units or the issuance of Common Stock in settlement thereof, the Company and the Outside Director may incur liability for income withholding tax. The Outside Director understands and agrees that if the Company is required to withhold part or all of the Outside Director's annual or meeting fees to pay any such withholding tax, and that if such fees are insufficient, the Company may require the Outside Director, as a condition of the issuance of Common Stock under this Agreement, to pay in cash the amount of any such withholding tax liability.

**8. Effect of the Plan on Restricted Stock Unit.** The Restricted Stock Unit Agreement is subject to, and the Company and the Outside Director agree to be bound by, all of the terms and conditions of the Plan, as such may be amended from time to time in accordance with the terms thereof, provided that no such amendment shall deprive the Outside Director, without his or her consent, of the Restricted Stock Units or any rights

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hereunder. Pursuant to the Plan, the Board is authorized to adopt rules and regulations, consistent with the Plan and as it shall deem appropriate and proper with regard to the Plan. A copy of the Plan in its present form is available for inspection by the Outside Director during the Company's business hours at the Company's principal office.

**9. Entire Agreement.** The terms of this Agreement and the Plan constitute the entire agreement between the Company and the Outside Director with respect to the Restricted Stock Units and supersede any and all previous agreements between the Company and the Outside Director with respect thereto.

**10. Severability.** If any provision of this Agreement, or the application of such provision to any person or circumstances, is held valid or unenforceable, the remainder of this Agreement, or the application of such provision to persons or circumstances other than those as to which it is held valid or unenforceable, shall not be affected thereby.

**11. Section 409A of the Code.** It is the intention of the parties to this Restricted Stock Unit Agreement that no payment or entitlement pursuant to this Restricted Stock Unit Agreement will give rise to any adverse tax consequences to the Outside Director under Section 409A of the Code or the regulations and other interpretive guidance issued thereunder, including that issued after the date hereof (collectively, "Section 409A"). The Restricted Stock Unit Agreement and the Plan shall be interpreted to that end and, consistent with that objective and notwithstanding any provision herein or the Plan to the contrary, the Company may unilaterally take any action it deems necessary or desirable to amend any provision herein or in the Plan to avoid the application of, or the excise tax under, Section 409A. Further, no effect shall be given to any provision in the Plan or this Agreement in a manner that reasonably could be expected to give rise to adverse tax consequences under Section 409A. Although the Company shall consult with the Outside Director in good faith regarding implementation of this Section 11, neither the Company nor its current or former employees, officers, directors, agents or representatives shall have any liability to the Outside Director with respect to any additional taxes, excise taxes, accelerated taxation, penalties or interest for which the Outside Director may become liable in the event that any amounts under this Agreement are determined to violate Section 409A.

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**IN WITNESS WHEREOF**, the parties hereto have executed this Agreement as of the day and year first set forth above.

**OUTSIDE DIRECTOR**

**SCHOLASTIC CORPORATION**

By: \_\_\_\_\_

Name: Richard Robinson  
Title: Chairman of the Board, Chief  
Executive Officer & President

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I, Richard Robinson, the principal executive officer of Scholastic Corporation, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Scholastic Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):
  - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: January 8, 2008

/s/Richard Robinson

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

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I, Maureen O'Connell, the principal financial officer of Scholastic Corporation, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Scholastic Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):
  - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: January 8, 2008

/s/Maureen O'Connell

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Maureen O'Connell  
Executive Vice President  
Chief Administrative Officer  
and Chief Financial Officer

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**Certification**  
**Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002**  
**with Respect to the Quarterly Report on Form 10-Q**  
**for the Quarter ended November 30, 2007**  
**of Scholastic Corporation**

Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (subsections (a) and (b) of section 1350, chapter 63 of title 18, United States Code), each of the undersigned officers of Scholastic Corporation, a Delaware corporation (the "Company"), does hereby certify, to the best of such officer's knowledge, that:

1. The Company's Quarterly Report on Form 10-Q for the quarter ended November 30, 2007 (the "Form 10-Q") fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
2. Information contained in the Form 10-Q fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: January 8, 2008

/s/Richard Robinson

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Richard Robinson  
Chief Executive Officer

Dated: January 8, 2008

/s/Maureen O'Connell

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Maureen O'Connell  
Chief Financial Officer

The certification set forth above is being furnished solely pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 and is not being filed as part of the Form 10-Q or as a separate disclosure document of the Company or the certifying officers.

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