

SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

Form 10-Q

(Mark One)

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

For the period ended November 30, 1996  
or

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File Number: 0-19860

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

DELAWARE

13-3385513

-----  
(State or other jurisdiction of  
incorporation or organization)

-----  
(IRS Employer Identification No.)

555 Broadway, New York, New York

10012

-----  
(Address of principal executive offices)

-----  
(Zip Code)

212-343-6100

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

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

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

Yes  No

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

Indicate by check mark whether the registrant has filed all documents and reports required to be filed by Sections 12, 13 or 15(d) of the Securities Exchange Act of 1934 subsequent to the distribution of securities under a plan confirmed by a court.

Yes  No

APPLICABLE ONLY TO CORPORATE ISSUERS:

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

Title of each class -----	Number of shares outstanding as of December 31, 1996 -----
Common Stock, \$.01 par value	15,244,899
Class A Stock, \$.01 par value	828,100

SCHOLASTIC CORPORATION  
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## PART I - FINANCIAL INFORMATION

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

	Three Months Ended		Six Months Ended	
	November 30, 1996	November 30, 1995	November 30, 1996	November 30, 1995
Revenues	\$ 342,174	\$ 294,610	\$ 500,763	\$ 429,801
Operating costs and expenses:				
Cost of goods sold	165,799	139,315	259,534	221,055
Selling, general and administrative expenses	106,683	98,943	187,244	163,132
Intangible amortization and depreciation	4,125	3,142	7,613	5,664
Total operating costs and expenses	276,607	241,400	454,391	389,851
Operating income	65,567	53,210	46,372	39,950
Interest expense, net	4,211	3,014	7,582	5,365
Income before provision for income taxes	61,356	50,196	38,790	34,585
Provision for income taxes	22,886	19,074	14,311	13,255
Net income	\$ 38,470	\$ 31,122	\$ 24,479	\$ 21,330
Primary earnings per share	\$ 2.36	\$ 1.92	\$ 1.51	\$ 1.32
Fully diluted earnings per share	\$ 2.21	\$ 1.81	\$ 1.47	\$ 1.31
Weighted average Class A, Common and Class A Share and Common Share Equivalents:				
Primary	16,322,474	16,180,250	16,254,388	16,100,166
Fully diluted	17,780,788	17,660,765	17,763,006	17,008,669

SEE ACCOMPANYING NOTES

SCHOLASTIC CORPORATION  
CONSOLIDATED CONDENSED BALANCE SHEET

(Amounts in thousands)

	November 30, 1996	May 31, 1996	November 30, 1995
	(Unaudited)		(Unaudited)
<b>ASSETS</b>			
Current assets:			
Cash and cash equivalents	\$ 2,212	\$ 4,300	\$ 567
Accounts receivable less allowance for doubtful accounts	184,907	118,390	157,966
Inventories:			
Paper	16,616	9,041	14,778
Books and other	222,603	180,937	203,303
Prepaid and other deferred expenses	17,296	15,118	17,531
Deferred taxes current	23,605	22,694	17,715
	-----	-----	-----
Total current assets	467,239	350,480	411,860
Property, plant and equipment, net	122,111	114,137	101,001
Prepublication costs	104,185	105,016	95,233
Other assets and deferred charges	117,758	103,533	59,790
	-----	-----	-----
	\$ 811,293	\$ 673,166	\$ 667,884
	=====	=====	=====
<b>LIABILITIES &amp; STOCKHOLDERS' EQUITY</b>			
Current liabilities:			
Accounts payable	64,609	63,148	60,181
Deferred revenue	34,064	9,216	35,059
Other accrued expenses	65,096	60,756	67,575
Other current liabilities	48,659	40,278	29,852
	-----	-----	-----
Total current liabilities	212,428	173,398	192,667
Noncurrent liabilities:			
Long-term debt	252,350	186,810	178,151
Other noncurrent liabilities	23,983	24,311	22,130
	-----	-----	-----
Total noncurrent liabilities	276,333	211,121	200,281
Stockholders' equity:			
Class A Stock, \$.01 par value	8	8	8
Common Stock, \$.01 par value	165	163	163
Additional paid-in capital	202,349	194,785	192,947
Accumulated earnings	155,122	130,643	120,076
Less shares held in treasury	(36,812)	(36,812)	(36,812)
Foreign currency translation adjustment	1,700	(140)	(1,446)
	-----	-----	-----
Total stockholders' equity	322,532	288,647	274,936
	-----	-----	-----
	811,293	673,166	\$ 667,884
	=====	=====	=====

SEE ACCOMPANYING NOTES

SCHOLASTIC CORPORATION  
CONSOLIDATED CONDENSED STATEMENT OF CASH FLOWS

(Unaudited)  
(Amounts in thousands)

	Six Months Ended	
	November 30, 1996	November 30, 1995
Net cash used in operating activities	\$ (26,706)	\$ (36,955)
Cash flows from investing activities:		
Additions to property, plant and equipment	(12,977)	(12,003)
Prepublication cost expenditures	(12,765)	(26,735)
Business acquisition-related payments	(10,829)	(1,068)
Royalty advances paid	(7,988)	(9,965)
Preproduction cost expenditures	(6,244)	(6,989)
Net cash used in investing activities	(50,803)	(56,760)
Cash flows from financing activities:		
Borrowings under lines of credit	152,183	115,250
Principal paydowns on lines of credit	(86,757)	(138,708)
Proceeds received from issuance of convertible debt	0	107,250
Proceeds received from notes payable	17,760	27,612
Principal paydowns on notes payable	(15,282)	(23,900)
Tax benefit realized from stock option transactions	3,622	2,228
Other, net	3,914	826
Net cash provided by financing activities	75,440	90,558
Effects of exchange rate changes on cash	(19)	16
Net decrease in cash and cash equivalents	(2,088)	(3,141)
Cash and cash equivalents at beginning of period	4,300	3,708
Cash and cash equivalents at end of period	\$ 2,212	\$ 567
	=====	=====
Supplemental information:		
Income taxes paid	\$ 9,672	\$ 1,288
Interest paid	\$ 6,844	\$ 4,139

SEE ACCOMPANYING NOTES

SCHOLASTIC CORPORATION  
NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS  
(Unaudited)

1. Basis of Presentation

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

The business of Scholastic Corporation including its subsidiaries (the "Company") is the publication and sale of educational materials and its business cycle is closely correlated to the normal school year. The results of operations for the six months ended November 30, 1996 and November 30, 1995 are not indicative of the results expected for the full year. Due to the seasonal fluctuations that occur, the prior year's November 30 balance sheet is included for comparative purposes.

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

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

2. Long Term Debt

The Company has a loan agreement (the "Loan Agreement") with certain banks which provide for revolving credit loans and letters of credit in the amount of \$135.0 million, with a right, in certain circumstances, to increase it up to \$160.0 million. The Loan Agreement expires on May 31, 2000. At November 30, 1996, the amount available of \$135.0 million was reduced by letters of credit outstanding in the amount of \$1.3 million, and the aggregate amount of borrowings was \$115.0 million.

The Company has a Revolving Loan Agreement (the "Revolver") with Sun Bank, National Association, which provides for revolving credit loans in an aggregate principal amount of up to \$35.0 million. At November 30, 1996, the aggregate amount of borrowings was \$24.6 million.

On August 18, 1995, the Company sold \$110.0 million of 5.0% Convertible Subordinated Debentures due August 15, 2005 (the "Debentures") under Regulation S and Rule 144A of the Securities Act of 1933. The Debentures are listed on the Luxembourg Stock Exchange and the portion sold under Rule 144A is designated for trading in the Portal system of the National Association of Securities Dealers, Inc. Interest on the Debentures is payable semi-annually on August 15 and February 15 of each year. The Debentures are redeemable at the option of the Company, in whole, but not in part, at any time on or after August 15, 1998 at 100% of the principal amount plus accrued interest. Each Debenture is convertible, at the holder's option, any time prior to maturity, into Common Stock of the Company at a conversion price of \$76.86 per share.

### 3. Stockholder's Equity

During the six months ended November 30, 1996, options to purchase a total of 192,225 shares of Common Stock were exercised at per share prices ranging from \$1.17 to \$57.56. The exercise of these options resulted in a tax deduction of \$3.6 million, which was credited directly to additional paid-in capital.

### 4. Subsequent Event

On December 23, 1996, the Company issued \$125.0 million of 7% Notes due December 15, 2003 (the "Notes"). The Notes are unsecured and unsubordinated obligations of the Company and will mature on December 15, 2003. The Notes are not redeemable prior to maturity. Interest on the Notes will be payable semi-annually on December 15 and June 15 of each year, commencing on June 15, 1997. The net proceeds (including accrued interest) from the issuance of the Notes were \$123.9 million, after deducting underwriting discount and other related offering costs. The Company utilized the net proceeds to repay amounts outstanding under the Loan Agreement.

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

Results of Operations

Revenues for the quarter ended November 30, 1996 increased from \$294.6 million to \$342.2 million, or 16%, versus the comparable quarter of the prior year. Revenues improved due to a \$22.6 million, or 11%, increase in domestic book publishing, resulting from an increase in Book Fairs sales and an increase in book club sales due to the addition of the Trumpet book clubs that were acquired in January 1996. Media, TV/Movie Productions and Licensing revenues increased 129% from \$9.1 million to \$21.0 million due to increased merchandising and licensing revenues primarily from Goosebumps merchandise licensing royalties. International revenues also increased by 27% versus the comparable quarter last year due to strong trade and book fair sales in the Canadian and United Kingdom subsidiaries, with the United Kingdom revenue benefiting from the Pages book fairs purchased in March 1996. Revenues for the six months ended November 30, 1996 totaled \$500.8 million, a 17% increase over revenue reported for the six months ended November 30, 1995.

As a percentage of revenue, cost of goods sold increased 1.2% for the quarter and 0.4% for the six months ended November 30, 1996 versus the comparable periods in the prior year. For the quarter the increase is a result of the Company's sales mix and increased prepublication cost amortization due to Scholastic's Literacy Place program, partly offset by the sales growth in merchandise licensing. Selling, general and administrative expense as a percentage of revenue decreased 2.4% for the quarter and 0.6% for the six months ended November 30, 1996 versus the comparable periods in the prior year, largely as a result of selling expenses growing slower than sales.

Operating income for the quarter ended November 30, 1996 increased from \$53.2 million in the corresponding quarter of the prior fiscal year to \$65.6 million. This increase in operating income results reflects the increase in high margin license royalties combined with improved international and children's book publishing margins. Operating income for the six months ended November 30, 1996, increased \$6.4 million or 16% over the six months ended November 30, 1995.

Net income for the quarter ended November 30, 1996 was \$38.5 million versus \$31.1 million in the comparable quarter in the prior year. Primary earnings per share increased to \$2.36 from \$1.92 and fully diluted earnings per share increased to \$2.21 from \$1.81 in the comparable quarter last year. Net income for the six months ended November 30, 1996 was \$24.5 million versus \$21.3 million in the comparable period last year. Primary earnings per share increased to \$1.51 from \$1.32 and fully diluted earnings per share increased to \$1.47 from \$1.31 in the comparable six month period in the prior year.

## Liquidity and Capital Resources

The Company had a net decrease in cash and cash equivalents for the six months ended November 30, 1996 of \$2.1 million, compared to a net decrease for the comparable period in the prior year of \$3.1 million. Cash provided by financing activities funded the net cash used in operating and investing activities during the six months ended November 30, 1996 and 1995.

For the six months ended November 30, 1996 and 1995, net cash provided by financing activities was \$75.4 million and \$90.6 million, respectively. Financing activities consisted primarily of borrowings and paydowns under the Loan Agreement and Revolver and, in the prior year, also of the sale of Debentures. Proceeds from the sale of Debentures and borrowings under the Loan Agreement have been the primary source of the Company's liquidity.

Cash used in investing activities was \$50.8 million and \$56.8 million for the first six months of fiscal 1997 and 1996, respectively. Investing activities primarily consist of prepublication and production cost expenditures, payments for capital expenditures, payments for business and trademark acquisitions, and royalty advances. Prepublication cost expenditures totaled \$12.8 million and

\$26.7 million for the first six months of fiscal 1997 and 1996, respectively. The \$13.9 million decrease in prepublication costs for the six months ended November 30, 1996 over the comparable period in the prior year was largely due to the reduction of costs associated with the Company's investment in its instructional publishing and technology based activities, primarily the development of a literacy program. Business and trademark acquisition payments totaled \$10.8 million and \$1.1 million for the first six months of fiscal 1997 and 1996, respectively, was due largely to the Company's acquisition of Lectorum Publications, Inc. on September 4, 1996, and the Company's investment in Gallimard S.A. Cash used in other investing activities such as production cost expenditures, payments for capital expenditures and royalty advances changed modestly from the first six months of fiscal 1996.

The Company believes its existing cash position, combined with funds generated from operations, the proceeds from the issuance of the \$125.0 million of Notes and funds available under the Loan Agreement and the Revolver, will be sufficient to finance its ongoing working capital requirements for the foreseeable future.

PART II - OTHER INFORMATION

Items 1, 2, 3, 4 and 5

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

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits:

Exhibit Number	Description of Document
3	(a) Amended and Restated Certificate of Incorporation of the Registrant. (1)
	(b) By-Laws of the Registrant. (2)
4	(a) Amended and Restated Loan Agreement dated April 11, 1995 among the Registrant, Scholastic Inc., Citibank, N.A., as agent, Marine Midland Bank, Chase Manhattan Bank, N.A., The First National Bank of Boston and United Jersey Bank. (4)
	(b) Revolving Loan Agreement dated June 19, 1995 between the Registrant, Scholastic Inc. and Sun Bank, National Association. (3)
	(c) Overdraft Facility dated June 1, 1992, as amended on September 12, 1994 between Scholastic Canada Ltd. and CIBC. (3)
	(d) Overdraft Facility dated June 24, 1993 between Scholastic Ltd. (formerly known as Scholastic Publications Ltd.) and Citibank, N.A. (3)
	(e) Overdraft Facility dated May 14, 1992 as amended on November 2, 1992, between Scholastic Ltd. (formerly known as Scholastic Publications Ltd.) and Midland Bank. (3)
	(f) Overdraft Facility dated April 20, 1993 between Ashton Scholastic Ltd. and ANZ Banking Group Ltd. (3)
	(g) Overdraft Facility dated February 12, 1993, as amended on January 31, 1995 between Scholastic Australia Pty. Ltd. (formerly known as Ashton Scholastic Pty. Ltd.) and National Australia Bank Ltd. (3)
	(h) Indenture dated August 15, 1995, relating to \$110 million of 5% Convertible Subordinated Debentures due August 15, 2005 issued by the Registrant. (5)
	(i) Indenture dated December 15, 1996, relating to \$125 million of 7% Notes due December 15, 2003 issued by the Registrant. (6)
11	Computation of Net Income per Class A, Common and Class A Share and Common Share Equivalents.

(b) Reports on Form 8-K.

- Current Report filed on Form 8-K with the Commission on December 12, 1996

- - - - -  
Footnotes:

- (1) Incorporated by reference to the Company's Registration Statement on Form S-8 (Registration No. 33-46338) as filed with the Commission on March 12, 1992.
- (2) Incorporated by reference to the Company's Registration Statement on Form S-1(Registration No. 33-45022) as filed with the Commission on January 10, 1992 (the "1992 Registration Statement").
- (3) Such long-term debt does not individually amount to more than 10% of the total assets of the subsidiaries on a Registrant and its consolidated basis. Accordingly, pursuant to Item 601(b)(4)(iii) of Regulation S-K, such instrument is not filed herewith. The Registrant

hereby agrees to furnish a copy of any such instrument to the Securities and Exchange Commission upon request.

- (4) Incorporated by reference to the Company's Form 10-Q for the quarter ended February 28, 1995 as filed with the Commission on April 13, 1995 (File No. 0-19860).
- (5) Incorporated by reference to the Company's Annual Report on Form 10-K as filed with the Commission on August 28, 1995 ( File No. 0-19860).
- (6) Incorporated by reference to the Company's Registration Statement on Form S-3 (Registration No. 333-17365) as filed with the Commission on December 11, 1996.

SIGNATURES

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

Scholastic Corporation

-----  
(Registrant)

Date: January 14, 1997

/s/ Richard Robinson

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

Date: January 14, 1997

/s/ Kevin J. McEnery

-----  
Executive Vice President and  
Chief Financial Officer

EXHIBIT 11

SCHOLASTIC CORPORATION  
 COMPUTATION OF NET INCOME PER CLASS A, COMMON AND CLASS A  
 SHARE AND COMMON SHARE EQUIVALENTS  
 (Amounts in thousands except shares and per share data)

	Three Months Ended		Six Months Ended	
	November 30, 1996	November 30, 1995	November 30, 1996	November 30, 1995
	(Unaudited)		(Unaudited)	
Net income used for primary earnings per share	\$ 38,470	\$ 31,122	\$ 24,479	\$ 21,330
Net interest savings from assumed conversion of Convertible Subordinated Debentures	853	853	1,705	995
Net income used for fully diluted earnings per share	<u>\$ 39,323</u>	<u>\$ 31,975</u>	<u>\$ 26,184</u>	<u>\$ 22,325</u>
Primary:				
Weighted average Class A and Common Shares outstanding	15,946,780	15,761,145	15,915,111	15,733,686
Common Share equivalents arising from outstanding options computed on the treasury stock method	375,694	419,105	339,277	366,480
Primary Class A, Common and Class A Share and Common Share Equivalents outstanding	16,322,474	16,180,250	16,254,388	16,100,166
Fully Diluted:				
Additional dilutive effect of outstanding options computed on the treasury stock method	24,159	46,360	56,573	73,652
Assumed conversion of Convertible Subordinated Debentures	1,434,155	1,434,155	1,452,045	834,851
Fully diluted Class A, Common and Class A Share and Common Share Equivalents outstanding	<u>17,780,788</u>	<u>17,660,765</u>	<u>17,763,006</u>	<u>17,008,669</u>
Primary earnings per share	\$ 2.36	\$ 1.92	\$ 1.51	\$ 1.32
Fully diluted earnings per share	\$ 2.21	\$ 1.81	\$ 1.47	\$ 1.31

6-MOS  
MAY-31-1997  
NOV-30-1996  
2,212  
0  
199,349  
14,442  
239,219  
467,239  
159,560  
37,449  
811,293  
212,428  
110,000  
0  
0  
165  
322,367  
811,293  
500,763  
500,763  
259,534  
446,778  
7,613  
5,228  
7,582  
38,790  
14,311  
24,479  
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24,479  
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1.47