

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 February 28, 2005

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 an accelerated filer (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 March 31, 2005
Common Stock, \$.01 par value	38,632,404
Class A Stock, \$.01 par value	1,656,200

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# PART I - FINANCIAL INFORMATION

## Item 1. Financial Statements

### SCHOLASTIC CORPORATION CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS - UNAUDITED

(Amounts in millions, except per share data)

	<i>Three months ended</i>		<i>Nine months ended</i>	
	<i>February 28,</i>	<i>February 29,</i>	<i>February 28,</i>	<i>February 29,</i>
	2005	2004	2005	2004
<b>Revenues</b>	\$ 480.8	\$ 472.0	\$ 1,487.8	\$ 1,646.4
Operating costs and expenses:				
Cost of goods sold	233.9	229.7	711.4	816.6
Selling, general and administrative expenses	213.1	214.1	627.8	639.4
Selling, general and administrative expenses -				
Continuity charges	-	-	3.6	-
Bad debt expense	14.9	17.0	50.7	66.1
Depreciation and amortization	13.1	13.5	39.1	39.8
Special severance charges	-	-	-	3.2
<b>Total operating costs and expenses</b>	<b>475.0</b>	<b>474.3</b>	<b>1,432.6</b>	<b>1,565.1</b>
<b>Operating income (loss)</b>	<b>5.8</b>	<b>(2.3)</b>	<b>55.2</b>	<b>81.3</b>
Interest expense, net	6.9	7.1	21.6	25.2
Earnings (loss) before income taxes	(1.1)	(9.4)	33.6	56.1
Provision (benefit) for income taxes	(0.4)	(3.4)	11.9	20.2
<b>Net income (loss)</b>	<b>\$ (0.7)</b>	<b>\$ (6.0)</b>	<b>\$ 21.7</b>	<b>\$ 35.9</b>
<b>Earnings (loss) per Share of Class A and Common Stock:</b>				
Basic	\$ (0.02)	\$ (0.15)	\$ 0.55	\$ 0.91
Diluted	\$ (0.02)	\$ (0.15)	\$ 0.54	\$ 0.90

See accompanying notes

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

	February 28, 2005		May 31, 2004		February 29, 2004	
	<i>(Unaudited)</i>				<i>(Unaudited)</i>	
<b>ASSETS</b>						
<i>Current Assets:</i>						
Cash and cash equivalents	\$	22.1	\$	17.8	\$	20.9
Accounts receivable, net		249.1		265.7		261.4
Inventories		468.0		402.6		484.0
Deferred promotion costs		42.7		40.6		62.8
Deferred income taxes		75.9		73.4		74.7
Prepaid and other current assets		48.0		42.6		45.5
<i>Total current assets</i>		905.8		842.7		949.3
Property, plant and equipment, net		328.5		334.6		333.5
Prepublication costs, net		115.5		116.7		119.7
Installment receivables, net		10.2		13.1		12.4
Production costs, net		9.9		5.5		5.2
Goodwill		251.5		250.3		252.3
Other intangibles, net		78.7		78.9		79.0
Other assets and deferred charges		125.5		121.7		123.4
<b>Total assets</b>	<b>\$</b>	<b>1,825.6</b>	<b>\$</b>	<b>1,763.5</b>	<b>\$</b>	<b>1,874.8</b>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>						
<i>Current Liabilities:</i>						
Lines of credit and short-term debt	\$	21.3	\$	24.1	\$	95.8
Accounts payable		127.6		150.1		180.0
Accrued royalties		57.1		38.4		74.0
Deferred revenue		43.4		22.7		35.4
Other accrued expenses		128.4		129.8		123.7
<i>Total current liabilities</i>		377.8		365.1		508.9
<i>Noncurrent Liabilities:</i>						
Long-term debt		489.0		492.5		478.7
Other noncurrent liabilities		58.2		49.9		67.2
<i>Total noncurrent liabilities</i>		547.2		542.4		545.9
<i>Commitments and Contingencies</i>						
		-		-		-
<i>Stockholders' Equity:</i>						
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		405.3		388.1		386.0
Deferred compensation		(1.5)		(0.6)		(0.7)
Accumulated other comprehensive loss		(14.9)		(21.5)		(32.8)
Retained earnings		511.3		489.6		467.1
<i>Total stockholders' equity</i>		900.6		856.0		820.0
<b>Total liabilities and stockholders' equity</b>	<b>\$</b>	<b>1,825.6</b>	<b>\$</b>	<b>1,763.5</b>	<b>\$</b>	<b>1,874.8</b>

See accompanying notes

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

	<i>Nine months ended</i>	
	<i>February 28,</i>	<i>February 29,</i>
	<b>2005</b>	<b>2004</b>
<b>Cash flows provided by operating activities:</b>		
Net income	\$ 21.7	\$ 35.9
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for losses on accounts receivable	50.7	66.1
Amortization of prepublication and production costs	49.3	60.2
Depreciation and amortization	39.1	39.8
Royalty advances expensed	21.3	15.5
Deferred income taxes	(3.3)	(0.1)
Changes in assets and liabilities:		
Accounts receivable, net	(27.1)	(68.5)
Inventories	(56.9)	(95.8)
Prepaid and other current assets	(4.0)	3.0
Deferred promotion costs	(0.9)	(7.9)
Accounts payable and other accrued expenses	(26.2)	23.8
Accrued royalties and deferred revenue	37.8	56.9
Income tax benefit realized from stock option exercises	1.5	0.4
Other, net	2.0	(10.9)
<b>Total adjustments</b>	<b>83.3</b>	<b>82.5</b>
Net cash provided by operating activities	105.0	118.4
<b>Cash flows used in investing activities:</b>		
Prepublication expenditures	(40.9)	(38.9)
Additions to property, plant and equipment	(31.4)	(26.5)
Royalty advances	(24.7)	(18.4)
Production expenditures	(12.8)	(12.6)
Acquisition-related payments	-	(8.8)
Other	-	(0.5)
Net cash used in investing activities	(109.8)	(105.7)
<b>Cash flows provided by (used in) financing activities:</b>		
Borrowings under Credit Agreement, Loan Agreement and Revolver	342.4	452.5
Repayments of Credit Agreement, Loan Agreement and Revolver	(344.6)	(383.8)
Borrowings under lines of credit	169.0	204.2
Repayments of lines of credit	(172.4)	(208.8)
Repayment of 7% Notes	-	(125.0)
Proceeds pursuant to employee stock plans	14.2	6.1
Proceeds from swap termination	-	3.8
Net cash provided by (used in) financing activities	8.6	(51.0)
Effect of exchange rate changes on cash	0.5	0.6
Net increase (decrease) in cash and cash equivalents	4.3	(37.7)
Cash and cash equivalents at beginning of period	17.8	58.6
<b>Cash and cash equivalents at end of period</b>	<b>\$ 22.1</b>	<b>\$ 20.9</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 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 flow. These financial statements should be read in conjunction with the consolidated financial statements and related notes in the Company's Annual Report on Form 10-K for the fiscal year ended May 31, 2004.

The Company's business is closely correlated to the school year. Consequently, the results of operations for the three and nine months ended February 28, 2005 and February 29, 2004 are not necessarily indicative of the results expected for the full year. Due to the seasonal fluctuations that occur, the February 29, 2004 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. 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 on-going 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 obligations; and recoverability of inventories, deferred promotion costs, deferred income taxes, prepublication costs, royalty advances, goodwill and other intangibles.

Certain prior year amounts have been reclassified to conform to the current year presentation.

## **Stock-Based Compensation**

Under the provisions of Statement of Financial Accounting Standards No. 123, "Accounting for Stock-Based Compensation" ("SFAS No. 123"), the Company applies Accounting Principles Board Opinion ("APB") No. 25, "Accounting for Stock Issued to Employees," and related interpretations in accounting for its stock option plans. In accordance with APB 25, no compensation expense was recognized with respect to the Company's stock option plans, as the exercise price of each stock option issued was equal to the market price of the underlying stock on the date of grant and the exercise price and number of shares subject to grant were fixed. If the Company had elected to recognize compensation expense based on the fair value of the options granted at the date of grant and with respect to shares issuable under the Company's equity compensation plans as prescribed by SFAS No. 123, net income (loss) and basic and diluted earnings (loss) per share would have been reduced to the pro forma amounts indicated in the following table:

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

	<i>Three months ended</i>		<i>Nine months ended</i>	
	<i>February 28,</i>	<i>February 29,</i>	<i>February 28,</i>	<i>February 29,</i>
	<b>2005</b>	<b>2004</b>	<b>2005</b>	<b>2004</b>
Net income (loss) – as reported	\$ (0.7)	\$ (6.0)	\$ 21.7	\$ 35.9
Add: Stock-based employee compensation included in reported net income, net of tax	0.1	0.1	0.2	0.3
Deduct: Total stock-based employee compensation expense determined under fair value based method, net of tax	(3.0)	(2.7)	(9.1)	(9.2)
<b>Net income (loss) – pro forma</b>	<b>\$ (3.6)</b>	<b>\$ (8.6)</b>	<b>\$ 12.8</b>	<b>\$ 27.0</b>
Earnings (loss) per share – as reported:				
Basic	\$ (0.02)	\$ (0.15)	\$ 0.55	\$ 0.91
Diluted	\$ (0.02)	\$ (0.15)	\$ 0.54	\$ 0.90
Earnings (loss) per share – pro forma:				
Basic	\$ (0.09)	\$ (0.22)	\$ 0.32	\$ 0.69
Diluted	\$ (0.09)	\$ (0.22)	\$ 0.32	\$ 0.68

**New Accounting Pronouncements**

On December 16, 2004, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 123 (revised 2004), “Share-Based Payment” (“SFAS No. 123R”), which requires companies to measure compensation cost for all share-based payments (including employee stock options) at fair value, as currently permitted but not required under SFAS No. 123. SFAS No. 123R is effective for the Company commencing September 1, 2005. However, retroactive application of the fair value recognition provisions of SFAS No. 123 to either June 1, 2005, the beginning of the fiscal year that includes the effective date of SFAS No. 123R, or to all prior years for which SFAS No. 123 was effective, is permitted, but is not required. The Company is currently evaluating the impact that the adoption of SFAS No. 123R will have on its financial position, results of operations and cash flows. The cumulative effect of adoption, if any, will be measured and recognized in the statement of operations on the date of adoption.

**2. Segment Information**

Scholastic is a global children’s publishing and media company. The Company distributes its products and services through a variety of channels, including school-based book clubs, school-based book fairs, school-based and direct-to-home continuity programs, retail stores, schools, libraries and television networks. 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.

- *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 publication and distribution to schools and libraries of educational technology, 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 software in the United States; the production and/or distribution, primarily by and through the Corporation's subsidiary, Scholastic Entertainment Inc., of programming and consumer products (including children's television programming, videos, software, feature films, 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.



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

The following table sets forth information for the Company's segments for the periods indicated. Certain prior year amounts have been reclassified to conform with the present year presentation.

	Children's Book Publishing and Distribution	Educational Publishing	Media, Licensing and Advertising	Overhead <sup>(1)</sup>	Total Domestic	International	Consolidated
<b>Three months ended February 28, 2005</b>							
Revenues	\$ 272.3	\$ 79.3	\$ 37.2	\$ 0.0	\$ 388.8	\$ 92.0	\$ 480.8
Bad debt	11.8	0.6	0.1	0.0	12.5	2.4	14.9
Depreciation	4.1	0.8	0.3	6.1	11.3	1.7	13.0
Amortization <sup>(2)</sup>	4.5	8.2	4.2	0.0	16.9	0.1	17.0
Royalty advances expensed	6.3	0.6	(0.2)	0.0	6.7	0.7	7.4
Segment profit (loss) <sup>(3)</sup>	16.5	4.0	1.3	(19.4)	2.4	3.4	5.8
Expenditures for long-lived assets <sup>(4)</sup>	18.3	11.0	5.6	5.0	39.9	0.7	40.6
<b>Three months ended February 29, 2004</b>							
Revenues	\$ 271.5	\$ 69.4	\$ 43.5	\$ 0.0	\$ 384.4	\$ 87.6	\$ 472.0
Bad debt	14.5	0.2	0.2	0.0	14.9	2.1	17.0
Depreciation	4.2	0.8	0.4	6.3	11.7	1.7	13.4
Amortization <sup>(2)</sup>	4.6	8.7	13.0	0.0	26.3	0.2	26.5
Royalty advances expensed	5.1	0.1	0.0	0.0	5.2	0.8	6.0
Segment profit (loss) <sup>(3)</sup>	10.6	3.2	0.3	(17.2)	(3.1)	0.8	(2.3)
Expenditures for long-lived assets <sup>(4)</sup>	11.9	8.4	3.2	4.2	27.7	1.9	29.6
<b>Nine months ended February 28, 2005</b>							
Revenues	\$ 819.1	\$ 292.0	\$ 96.7	\$ 0.0	\$ 1,207.8	\$ 280.0	\$ 1,487.8
Bad debt	42.1	1.2	0.5	0.0	43.8	6.9	50.7
Depreciation	10.8	2.4	1.2	19.8	34.2	4.7	38.9
Amortization <sup>(2)</sup>	12.7	25.1	11.1	0.0	48.9	0.6	49.5
Royalty advances expensed	18.6	0.9	0.1	0.0	19.6	1.7	21.3
Segment profit (loss) <sup>(3)</sup>	47.2	46.8	(2.2)	(56.2)	35.6	19.6	55.2
Segment assets	796.6	304.3	63.7	347.7	1,512.3	313.3	1,825.6
Goodwill	127.9	82.5	10.7	0.0	221.1	30.4	251.5
Expenditures for long-lived assets <sup>(4)</sup>	49.9	27.9	14.2	13.0	105.0	4.8	109.8
Long-lived assets <sup>(5)</sup>	320.5	185.5	37.4	232.1	775.5	105.4	880.9
<b>Nine months ended February 29, 2004</b>							
Revenues	\$ 1,010.1	\$ 262.5	\$ 106.3	\$ 0.0	\$ 1,378.9	\$ 267.5	\$ 1,646.4
Bad debt	58.8	0.6	0.8	0.0	60.2	5.9	66.1
Depreciation	9.9	2.4	1.4	21.0	34.7	4.9	39.6
Amortization <sup>(2)</sup>	13.2	25.9	20.7	0.0	59.8	0.6	60.4
Royalty advances expensed	12.1	0.9	0.6	0.0	13.6	1.9	15.5
Segment profit (loss) <sup>(3)</sup>	87.7	32.0	(1.6)	(55.0)	63.1	18.2	81.3
Segment assets	828.1	298.2	65.1	369.0	1,560.4	314.4	1,874.8
Goodwill	129.4	82.5	11.0	0.0	222.9	29.4	252.3
Expenditures for long-lived assets <sup>(4)</sup>	41.8	25.3	22.4	10.4	99.9	5.3	105.2
Long-lived assets <sup>(5)</sup>	310.6	189.2	34.6	237.9	772.3	105.1	877.4



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

- (1) *Overhead includes all domestic corporate amounts not allocated to reportable segments, which includes unallocated 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, fulfillment and distribution facilities located in Missouri and Arkansas, and an industrial/office building complex in Connecticut.*
- (2) *Includes amortization of prepublication costs, production costs and other intangibles with definite lives.*
- (3) *Segment profit (loss) represents earnings before interest and income taxes.*
- (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.*

The following table separately sets forth information for the periods indicated for the United States direct-to-home continuity programs, which consist primarily of the business formerly operated by Grolier Incorporated ("Grolier") and are included in the *Children's Book Publishing and Distribution* segment, and for all other businesses included in that segment:

**Three months ended February 28, 2005 and February 29, 2004**

	Direct-to-home		All Other		Total	
	2005	2004	2005	2004	2005	2004
Revenues	\$ 32.8	\$ 45.5	\$ 239.5	\$ 226.0	\$ 272.3	\$ 271.5
Bad debt	7.2	9.9	4.6	4.6	11.8	14.5
Depreciation	0.1	0.1	4.0	4.1	4.1	4.2
Amortization <sup>(1)</sup>	0.3	0.5	4.2	4.1	4.5	4.6
Royalty advances expensed	1.2	1.4	5.1	3.7	6.3	5.1
Business profit <sup>(2)</sup>	0.4	0.2	16.1	10.4	16.5	10.6
Expenditures for long-lived assets <sup>(3)</sup>	2.2	1.7	16.1	10.2	18.3	11.9

**Nine months ended February 28, 2005 and February 29, 2004**

	Direct-to-home		All Other		Total	
	2005	2004	2005	2004	2005	2004
Revenues	\$ 113.4	\$ 150.8	\$ 705.7	\$ 859.3	\$ 819.1	\$ 1,010.1
Bad debt	28.0	36.5	14.1	22.3	42.1	58.8
Depreciation	0.4	0.3	10.4	9.6	10.8	9.9
Amortization <sup>(1)</sup>	0.9	1.0	11.8	12.2	12.7	13.2
Royalty advances expensed	2.1	2.5	16.5	9.6	18.6	12.1
Business profit (loss) <sup>(2)</sup>	(4.2)	2.2	51.4	85.5	47.2	87.7
Business assets	232.9	275.3	563.7	552.8	796.6	828.1
Goodwill	92.4	92.5	35.5	36.9	127.9	129.4
Expenditures for long-lived assets <sup>(3)</sup>	6.4	3.9	43.5	37.9	49.9	41.8
Long-lived assets <sup>(4)</sup>	145.7	143.9	174.8	166.7	320.5	310.6

- (1) *Includes amortization of prepublication costs and other intangibles with definite lives.*
- (2) *Business profit (loss) represents earnings before interest and income taxes. For the nine months ended February 28, 2005, the Direct-to-home continuity business results include \$3.6 recorded as Selling, general and administrative expenses – Continuity charges.*
- (3) *Includes expenditures for property, plant and equipment, investments in prepublication costs, royalty advances and acquisitions of businesses.*
- (4) *Includes property, plant and equipment, prepublication costs, goodwill, other intangibles and royalty advances.*

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

**3. Debt**

The following table summarizes debt as of the dates indicated:

	<i>February 28, 2005</i>		<i>May 31, 2004</i>		<i>February 29, 2004</i>
Lines of Credit	\$ 20.8	\$	23.0	\$	26.8
Credit Agreement, Loan Agreement and Revolver	12.0		14.2		68.7
5.75% Notes due 2007, net of premium/discount	304.0		305.5		305.9
5% Notes due 2013, net of discount	173.0		172.8		172.8
Other debt	0.5		1.1		0.3
<b>Total debt</b>	<b>510.3</b>		<b>516.6</b>		<b>574.5</b>
Less lines of credit and short-term debt	(21.3)		(24.1)		(95.8)
Total long-term debt	\$ 489.0	\$	492.5	\$	478.7

The following table sets forth the maturities of the carrying values of the Company's debt obligations as of February 28, 2005 for the remainder of fiscal 2005 and thereafter:

	<b>May 31,</b>		
Three-month period ending:	2005	\$	21.3
Fiscal years ending:	2006		-
	2007		304.0
	2008		-
	2009		12.0
	Thereafter		173.0
	<b>Total debt</b>	<b>\$</b>	<b>510.3</b>

*Lines of Credit*

Scholastic Corporation's international subsidiaries had unsecured lines of credit available in local currencies equivalent to \$64.6 at February 28, 2005, as compared to \$66.8 at February 29, 2004 and \$62.1 at May 31, 2004. There were borrowings outstanding under these lines of credit equivalent to \$20.8 at February 28, 2005, as compared to \$26.8 at February 29, 2004 and \$23.0 at May 31, 2004. These lines of credit are considered short-term in nature. The weighted average interest rates on the outstanding amounts were 6.1% at both February 28, 2005 and February 29, 2004 and 5.5% at May 31, 2004.

*Credit Agreement*

On March 31, 2004, Scholastic Corporation and its principal operating subsidiary, Scholastic Inc., entered into an unsecured revolving credit agreement with certain banks (the "Credit Agreement"), which replaced a similar loan agreement that was scheduled to expire on August 11, 2004 (the "Loan Agreement"). The Credit Agreement, which expires on March 31, 2009, provides for aggregate borrowings of up to \$190.0 (with a right in certain circumstances to increase borrowings to \$250.0), including the issuance of up to \$10.0 in letters of credit. Interest under this facility is either at the prime rate or 0.325% to 0.975% over LIBOR (as defined). There is a facility fee ranging from 0.10% to 0.30% and a utilization fee ranging from 0.05% to 0.25% if borrowings

exceed 50% of the total facility. The amounts charged vary based upon the Company's credit rating. The interest rate, facility fee and utilization fee (when applicable) as of February 28, 2005 were 0.55% over LIBOR, 0.15% and 0.10%, respectively. The Credit Agreement contains certain financial covenants related to debt and interest coverage ratios (as defined) and limits dividends and other distributions. At both February 28, 2005 and May 31, 2004, \$12.0 was outstanding under the Credit Agreement at a weighted average interest rate of 3.1% and 1.7%, respectively. At February 29, 2004, \$45.0 was outstanding under the Loan Agreement at a weighted average interest rate of 1.5% .

*Revolver*

Scholastic Corporation and Scholastic Inc. are joint and several borrowers under an unsecured revolving loan agreement with a bank (the "Revolver"). As amended effective April 30, 2004, the Revolver provides for unsecured revolving credit of up to \$40.0 and expires on March 31, 2009. Interest under this facility is either at the prime rate minus 1%, or 0.375% to 1.025% over LIBOR (as defined). There is a facility fee ranging from 0.10% to 0.30% . The amounts charged vary based upon the Company's credit rating. The interest rate and facility fee as of February 28, 2005 were 0.60% over LIBOR and 0.15%, respectively. The Revolver contains certain financial covenants related to debt and interest coverage ratios (as defined) and limits dividends and other distributions. There were no borrowings outstanding under the Revolver at February 28, 2005. At February 29, 2004 and May 31, 2004, \$23.7 and \$2.2, respectively, were outstanding under the Revolver at a weighted average interest rate of 1.7% and 3.0%, respectively.

*5% Notes due 2013*

On April 4, 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. 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 the redemption.

*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 are senior unsecured obligations that mature on January 15, 2007. Interest on the 5.75% Notes is payable semi-annually on July 15 and January 15 of each year. The Company may, at any time, redeem all or a portion of the 5.75% 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 the redemption.

**4. Comprehensive Income (Loss)**

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

	<i>Three months ended</i>		<i>Nine months ended</i>	
	<i>February 28,</i>	<i>February 29,</i>	<i>February 28,</i>	<i>February 29,</i>
	<b>2005</b>	<b>2004</b>	<b>2005</b>	<b>2004</b>
Net income (loss)	\$ (0.7)	\$ (6.0)	\$ 21.7	\$ 35.9
Other comprehensive income (loss) - foreign currency translation adjustment	(2.4)	1.8	6.6	5.0
<b>Comprehensive income (loss)</b>	<b>\$ (3.1)</b>	<b>\$ (4.2)</b>	<b>\$ 28.3</b>	<b>\$ 40.9</b>

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**5. 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 Stock and Common Stock issued pursuant to the Company's stock-based benefit plans that were outstanding during the period. The diluted loss per share was equal to the basic loss per share for the three months ended February 28, 2005 and February 29, 2004 because such options outstanding were antidilutive. The following table summarizes the reconciliation of the numerators and denominators for the basic and diluted earnings per share computations for the periods indicated:

	<i>Three months ended</i>		<i>Nine months ended</i>	
	<i>February 28,</i>	<i>February 29,</i>	<i>February 28,</i>	<i>February 29,</i>
	<b>2005</b>	<b>2004</b>	<b>2005</b>	<b>2004</b>
<b>Net income (loss) for basic and diluted earnings per share</b>	\$ (0.7)	\$ (6.0)	\$ 21.7	\$ 35.9
Weighted average Shares of Class A Stock and Common Stock outstanding for basic earnings per share	40.0	39.4	39.8	39.4
Dilutive effect of Class A Stock and Common Stock issued pursuant to stock-based benefit plans	-	-	0.7	0.7
Adjusted weighted average Shares of Class A Stock and Common Stock outstanding for diluted earnings per share	40.0	39.4	40.5	40.1
<b>Earnings (loss) per share of Class A Stock and Common Stock:</b>				
Basic	\$ (0.02)	\$ (0.15)	\$ 0.55	\$ 0.91
Diluted	\$ (0.02)	\$ (0.15)	\$ 0.54	\$ 0.90

**6. Goodwill and Other Intangibles**

Goodwill and other intangible assets with indefinite lives 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>Nine months ended February 28, 2005</i>	<i>Twelve months ended May 31, 2004</i>	<i>Nine months ended February 29, 2004</i>
Beginning balance	\$ 250.3	\$ 246.0	\$ 246.0
Additions due to acquisitions	-	3.0	3.0
Other adjustments	1.2	1.3	3.3
<b>Total</b>	<b>\$ 251.5</b>	<b>\$ 250.3</b>	<b>\$ 252.3</b>

In the first quarter of fiscal 2004, the Company acquired certain assets of Troll Holdings, Inc., formerly a national school-based book club operator and publisher, for \$4.0 in cash and the assumption of certain ordinary course liabilities, and the stock of BTBCAT, Inc., which operates Back to Basics Toys, a direct-to-home catalog business specializing in children's toys, for \$4.8 in cash.

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

	<i>February 28, 2005</i>	<i>May 31, 2004</i>	<i>February 29, 2004</i>
Customer lists	\$ 2.9	\$ 2.9	\$ 2.9
Accumulated amortization	(2.7)	(2.7)	(2.6)
Net customer lists	0.2	0.2	0.3
Other intangibles	4.0	4.0	4.0
Accumulated amortization	(2.6)	(2.4)	(2.4)
Net other intangibles	1.4	1.6	1.6
<b>Total</b>	<b>\$ 1.6</b>	<b>\$ 1.8</b>	<b>\$ 1.9</b>

Amortization expense for Other intangibles totaled \$0.1 and \$0.2 for the three and nine months ended February 28, 2005, respectively, and \$0.1 and \$0.2 for the three and nine months ended February 29, 2004, respectively. Amortization expense was \$0.3 for the twelve months ended May 31, 2004. Amortization expense for these assets is currently estimated to total \$0.3 for each of the fiscal years ending May 31, 2005 and 2006 and \$0.2 for each of the fiscal years ending May 31, 2007 through 2009. The weighted average amortization periods for these assets by major asset class are two years and 13 years for customer lists and other intangibles, respectively.

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

	<i>February 28, 2005</i>	<i>May 31, 2004</i>	<i>February 29, 2004</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>



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

The following tables set 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 defined benefit pension plan of Scholastic Ltd., an indirect subsidiary of Scholastic Inc. located in the United Kingdom (the "U.K. Pension Plan"), the defined benefit pension plan of Grolier Ltd., an indirect subsidiary of Scholastic Inc. located in Canada (collectively, 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 (the "Post-Retirement Benefits"), for the periods indicated:

	<b>Pension Plans</b>			
	<i>Three months ended</i>		<i>Nine months ended</i>	
	<i>February 28</i>	<i>February 29</i>	<i>February 28</i>	<i>February 29</i>
	<i>2005</i>	<i>2004</i>	<i>2005</i>	<i>2004</i>
Components of Net Periodic Benefit Cost:				
Service cost	\$ 2.0	\$ 1.8	\$ 5.9	\$ 5.3
Interest cost	2.1	1.9	6.2	5.8
Expected return on assets	(2.4)	(2.0)	(7.2)	(6.0)
Net amortization and deferrals	0.6	0.7	1.9	2.1
Decrease in valuation allowance	-	(0.3)	-	(1.0)
<b>Net periodic benefit cost</b>	<b>\$ 2.3</b>	<b>\$ 2.1</b>	<b>\$ 6.8</b>	<b>\$ 6.2</b>

	<b>Post-Retirement Benefits</b>			
	<i>Three months ended</i>		<i>Nine months ended</i>	
	<i>February 28</i>	<i>February 29</i>	<i>February 28</i>	<i>February 29</i>
	<i>2005</i>	<i>2004</i>	<i>2005</i>	<i>2004</i>
Components of Net Periodic Benefit Cost:				
Service cost	\$ 0.1	\$ 0.1	\$ 0.3	\$ 0.3
Interest cost	0.5	0.5	1.6	1.5
Amortization of prior service cost	(0.2)	(0.2)	(0.6)	(0.6)
Recognized gain or loss	0.5	0.5	1.3	1.5
<b>Net periodic benefit cost</b>	<b>\$ 0.9</b>	<b>\$ 0.9</b>	<b>\$ 2.6</b>	<b>\$ 2.7</b>

In fiscal 2005, the Company currently estimates that Scholastic Ltd. will contribute the equivalent of \$0.8 to the U.K. Pension Plan and Scholastic Inc. will contribute \$2.5 toward the Post-Retirement Benefits. For the nine months ended February 28, 2005, Scholastic Ltd. contributed the equivalent of \$0.6 to the U.K. Pension Plan and Scholastic Inc. contributed \$1.8 toward the Post-Retirement Benefits.

**8. Special Severance Charges**

On May 28, 2003, the Company announced a reduction in its global work force, and the Company has established liabilities for severance and other related costs with respect to employees notified in certain periods. These charges are reflected in the Company's income statements as the Special severance charges and totaled \$3.2 for the nine months ended February 29, 2004 and \$10.9 and \$3.3 for the twelve months ended May 31, 2003 and 2004, respectively.

A summary of the activity in the related liabilities is detailed in the following table:

	<i>Amount</i>
Fiscal 2003 liabilities	\$ 10.9
Fiscal 2003 payments	(1.2)
<hr/>	
Balance at May 31, 2003	9.7
Fiscal 2004 additional liabilities	3.3
Fiscal 2004 payments	(10.9)
<hr/>	
Balance at May 31, 2004	2.1
<hr/>	
Fiscal 2005 payments	(1.2)
<hr/>	
<b>Balance at February 28, 2005</b>	<b>\$ 0.9</b>

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The remaining liability of \$0.9 is expected to be paid over the current and next fiscal year under severance arrangements with certain affected employees.

#### **9. Continuity Charges**

In the fourth quarter of fiscal 2004, the Company recorded charges of \$25.4 related to its continuity business. During the nine months ended February 28, 2005, the Company recorded additional charges of \$3.6, relating primarily to severance costs in its continuity business, as Selling, general and administrative expenses. Substantially all such severance payments are to be made prior to May 31, 2005. The impact of these charges on earnings per diluted share in the nine months ended February 28, 2005 was \$0.06.

#### **10. Contingent Purchase Payment**

In fiscal 2002, the Company completed the acquisition of Klutz, a publisher and creator of "books plus" products for children. In addition to the initial purchase price paid for Klutz of \$42.8, the purchase agreement provided for additional payments of up to \$31.3 in 2004 and 2005, contingent upon the achievement of certain revenue thresholds. The Company did not make any such payments in 2004.

**Outlook and Overview**

Results for the quarter ended February 28, 2005 were consistent with the Company's goal for fiscal 2005 of achieving higher profits and margins, as operating margins and profits improved in all segments.

In Scholastic's second smallest revenue period, revenues were up 1.9%, reflecting increases in the *Educational Publishing, International* and *Children's Book Publishing and Distribution* segments, partially offset by a revenue decrease in *Media, Licensing and Advertising*.

Net loss for the quarter ended February 28, 2005 improved to \$0.7 million from \$6.0 million in the prior fiscal year quarter. Key factors included higher operating margins in all segments; lower return levels, bad debt and promotional costs in the *Children's Book Publishing and Distribution* segment; continued growth in revenues and profits in the *Educational Publishing* segment, led by sales of educational technology products; and improved performance in the *International* segment.

**Results of Operations – Consolidated**

Revenues for the quarter ended February 28, 2005 increased by \$8.8 million, or 1.9%, to \$480.8 million, compared to \$472.0 million in the prior fiscal year quarter. The increase was due to higher revenues from the *Educational Publishing, International* and *Children's Book Publishing and Distribution* segments of \$9.9 million, \$4.4 million and \$0.8 million, respectively, partially offset by a decrease in the *Media, Licensing & Advertising* segment of \$6.3 million. For the nine months ended February 28, 2005, revenues decreased by \$158.6 million, or 9.6%, to \$1,487.8 million from \$1,646.4 million in the prior fiscal year period. This revenue decrease related primarily to \$191.0 million in lower revenues from the *Children's Book Publishing and Distribution* segment as compared to the prior fiscal year period, which reflected the release of *Harry Potter and the Order of the Phoenix*, the fifth book in the *Harry Potter* series.

Cost of goods sold as a percentage of revenues remained relatively flat at 48.6% for the quarter ended February 28, 2005, as compared to 48.7% in the prior fiscal year quarter. For the nine-month period ended February 28, 2005, cost of goods sold as a percentage of revenue improved to 47.8%, as compared to 49.6% in the prior fiscal year period, primarily due to higher costs related to the *Harry Potter* release in the prior fiscal year.

Selling, general and administrative expenses as a percentage of revenues improved to 44.3% for the quarter ended February 28, 2005, as compared to 45.4% in the prior fiscal year quarter. This decrease was primarily due to a \$13.6 million reduction in promotional costs, principally in the continuity business, partially offset by an \$11.5 million increase in employee and related costs. For the nine-month period ended February 28, 2005, Selling, general and administrative expenses included \$3.6 million in severance costs and related employee expenses (the "Continuity Charges") recorded in connection with changes to the Company's continuity business announced in fiscal 2004. As a percentage of revenues, Selling, general and administrative expenses for the nine-month period ended February 28, 2005 increased to 42.4% from 38.8% in the prior fiscal year period, primarily due to lower *Harry Potter* revenues in the current fiscal year period without a corresponding decrease in expenses.

Bad debt expense decreased to \$14.9 million, or 3.1% of revenues, for the quarter ended February 28, 2005, compared to \$17.0 million, or 3.6% of revenues, in the prior fiscal year quarter. For the nine-month period ended February 28, 2005, bad debt expense decreased to \$50.7 million, or 3.4% of revenues, compared to \$66.1 million, or 4.0% of revenues, in the prior fiscal year period. These decreases related primarily to lower bad debt in the Company's continuity business.

In connection with the Company's May 2003 announcement of a reduction in its global work force, Special severance charges of \$3.2 million were recorded in the nine-month period ended February 29, 2004 for employees notified in that period.

The resulting operating income for the quarter ended February 28, 2005 was \$5.8 million, or 1.2% of revenues, compared to an operating loss of \$2.3 million in the prior fiscal year quarter. For the nine months ended February 28, 2005, the resulting operating income decreased to \$55.2 million, or 3.7% of revenues, compared to \$81.3 million, or 4.9% of revenues, in the prior fiscal year period.

Net interest expense decreased slightly to \$6.9 million in the quarter ended February 28, 2005, compared to \$7.1 million in the prior fiscal year quarter. For the nine-month period ended February 28, 2005, net interest expense decreased \$3.6 million to \$21.6 million as compared to \$25.2 million in the prior fiscal year period. The decreases in the three- and nine-month periods were primarily due to lower debt levels.

Net loss was \$0.7 million, or \$0.02 per diluted share, for the quarter ended February 28, 2005, compared to a net loss of \$6.0 million, or \$0.15 per diluted share, in the prior fiscal year quarter. For the nine months ended February 28, 2005, net income was \$21.7 million, or \$0.54 per diluted share, compared to net income of \$35.9 million, or \$0.90 per diluted share, in the prior fiscal year period.

**Results of Operations - Segments**

***Children's Book Publishing and Distribution***

The Company's *Children's Book Publishing and Distribution* segment 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.

(\$ amounts in millions)	<i>Three months ended</i>		<i>Nine months ended</i>	
	<i>February 28</i>	<i>February 29</i>	<i>February 28</i>	<i>February 29</i>
	<b>2005</b>	<b>2004</b>	<b>2005</b>	<b>2004</b>
Revenue	\$ 272.3	\$ 271.5	\$ 819.1	\$ 1,010.1
Operating profit	16.5	10.6	47.2*	87.7
<b>Operating margin</b>	<b>6.1%</b>	<b>3.9%</b>	<b>5.8%</b>	<b>8.7%</b>

\* inclusive of \$3.6 million of Continuity Charges

Revenues in the *Children's Book Publishing and Distribution* segment for the quarter ended February 28, 2005 increased \$0.8 million to \$272.3 million, compared to \$271.5 million in the prior fiscal year quarter. Revenues in the Company's trade and school-based book fairs businesses increased \$15.8 million and \$5.4 million, respectively, offset by revenue decreases in the Company's continuity and school-based book club businesses of \$19.3 million and \$1.1 million, respectively. Revenue growth in the trade business was helped by lower returns in the quarter. The increase in school-based book fair revenues was primarily due to an increase in revenue per fair. The revenue decrease in the continuity business was a result of the Company's strategy of focusing on its more productive continuity customers. Excluding the direct-to-home continuity business described in the table below, segment revenues for the quarter ended February 28, 2005 increased \$13.5 million to \$239.5 million, as compared to \$226.0 million in the prior fiscal year quarter.

Segment operating profit for the quarter ended February 28, 2005 increased \$5.9 million to \$16.5 million, compared to \$10.6 million in the prior fiscal year quarter. This increase was due to higher operating profits in the Company's trade business of \$10.0 million, substantially as a result of higher revenues, partially offset by operating profit decreases in the balance of the segment totaling \$4.1 million. The impact of lower revenues on operating profit in the Company's continuity business was largely offset by lower operating expenses as a result of the Company's previously announced plan for this business. Excluding the direct-to-home continuity business described in the table below, segment operating profit for the quarter ended February 28, 2005 increased \$5.7 million to \$16.1 million, as compared to \$10.4 million in the prior fiscal year quarter.

Revenues for the nine months ended February 28, 2005 decreased \$191.0 million, or 18.9%, to \$819.1 million, compared to \$1,010.1 million in the prior fiscal year period. This decrease was primarily related to lower revenues from the Company's trade business of \$146.0 million due to lower *Harry Potter* revenues of approximately \$160 million, partially offset by increased non-*Harry Potter* revenues of approximately \$14 million. Continuity business revenues decreased \$49.6 million to \$160.8 million, as compared to \$210.4 million in the prior fiscal year period, as a result of the Company's previously announced plan for this business. Excluding the direct-to-home continuity business described in the table below, segment revenues for the nine months ended February 28, 2005 decreased \$153.6 million to \$705.7 million, as compared to \$859.3 million in the prior fiscal year period.

Segment operating profit for the nine months ended February 28, 2005 decreased \$40.5 million to \$47.2 million, compared to \$87.7 million in the prior fiscal year period. The decrease was principally due to lower operating results for the Company's trade business of \$32.3 million, resulting primarily due to lower *Harry Potter* revenues. Operating results for the Company's continuity business decreased \$2.9 million, which reflects the impact of \$3.6 million in Continuity Charges. Excluding the direct-to-home continuity business described in the table below, segment operating profit for the nine months ended February 28, 2005 decreased \$34.1 million to \$51.4 million, as compared to \$85.5 million in the prior fiscal year period.

The following table highlights the results of the direct-to-home continuity programs, which consist primarily of the business formerly operated by Grolier Incorporated (“Grolier”) and are included in the *Children’s Book Publishing and Distribution* segment.

(\$ amounts in millions)	<i>Three months ended</i>		<i>Nine months ended</i>	
	<i>February 28</i>	<i>February 29</i>	<i>February 28</i>	<i>February 29</i>
	<b>2005</b>	<b>2004</b>	<b>2005</b>	<b>2004</b>
Revenue	\$ 32.8	\$ 45.5	\$ 113.4	\$ 150.8
Operating profit (loss)	0.4	0.2	(4.2) *	2.2
<b>Operating margin</b>	<b>1.2%</b>	<b>**</b>	<b>**</b>	<b>1.5%</b>

\* inclusive of \$3.6 million of Continuity Charges

\*\* not meaningful

### **Educational Publishing**

The Company’s *Educational Publishing* segment includes the publication and distribution to schools and libraries of educational technology, 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.

(\$ amounts in millions)	<i>Three months ended</i>		<i>Nine months ended</i>	
	<i>February 28</i>	<i>February 29</i>	<i>February 28</i>	<i>February 29</i>
	<b>2005</b>	<b>2004</b>	<b>2005</b>	<b>2004</b>
Revenue	\$ 79.3	\$ 69.4	\$ 292.0	\$ 262.5
Operating profit	4.0	3.2	46.8	32.0
<b>Operating margin</b>	<b>5.0%</b>	<b>4.6%</b>	<b>16.0%</b>	<b>12.2%</b>

Revenues in the *Educational Publishing* segment for the quarter ended February 28, 2005 increased \$9.9 million, or 14.3%, to \$79.3 million, compared to \$69.4 million in the prior fiscal year quarter. This increase was primarily due to higher revenues from sales of educational technology products, including the Company’s *Read 180*<sup>®</sup> reading intervention program. Segment revenues for the nine months ended February 28, 2005 increased \$29.5 million, or 11.2%, to \$292.0 million, compared to \$262.5 million in the prior fiscal year period, primarily due to increased educational technology revenues.

Segment operating profit for the quarter ended February 28, 2005 increased \$0.8 million to \$4.0 million, as compared to \$3.2 million in the prior fiscal year quarter. Segment operating profit for the nine months ended February 28, 2005 increased \$14.8 million, or 46.3%, to \$46.8 million, compared to \$32.0 million in the prior fiscal year period. The operating profit improvements for the three- and nine-month periods were primarily due to increased educational technology revenues.

**Media, Licensing and Advertising**

The Company's *Media, Licensing and Advertising* segment includes the production and/or distribution of software in the United States; the production and/or distribution, primarily by and through the Corporation's subsidiary, Scholastic Entertainment Inc., of programming and consumer products (including children's television programming, videos, software, feature films, promotional activities and non-book merchandise); and advertising revenue, including sponsorship programs.

(\$ amounts in millions)	<i>Three months ended</i>		<i>Nine months ended</i>	
	<i>February 28</i>	<i>February 29</i>	<i>February 28</i>	<i>February 29</i>
	<b>2005</b>	<b>2004</b>	<b>2005</b>	<b>2004</b>
Revenue	\$ 37.2	\$ 43.5	\$ 96.7	\$ 106.3
Operating profit (loss)	1.3	0.3	(2.2)	(1.6)
<b>Operating margin</b>	<b>3.5%</b>	<b>0.7%</b>	<b>**</b>	<b>**</b>

\* not meaningful

Revenues in the *Media, Licensing and Advertising* segment for the quarter ended February 28, 2005 decreased \$6.3 million, or 14.5%, to \$37.2 million, compared to \$43.5 million in the prior fiscal year quarter. This decrease primarily resulted from lower programming revenues of \$8.5 million, largely due to the prior year release of the feature film *Clifford's Really Big Movie*<sup>TM</sup>, partially offset by increased software revenues of \$1.7 million. Segment revenues for the nine months ended February 28, 2005 decreased \$9.6 million, or 9.0%, to \$96.7 million, compared to \$106.3 million in the prior fiscal year period, primarily due to lower programming revenues of \$10.5 million.

Segment operating profit for the quarter ended February 28, 2005 increased \$1.0 million to \$1.3 million, as compared to \$0.3 million in the prior fiscal year quarter, primarily due to higher software revenues. Segment operating loss for the nine months ended February 28, 2005 increased modestly on lower revenues.

**International**

The *International* segment 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.

(\$ amounts in millions)	<i>Three months ended</i>		<i>Nine months ended</i>	
	<i>February 28</i>	<i>February 29</i>	<i>February 28</i>	<i>February 29</i>
	<b>2005</b>	<b>2004</b>	<b>2005</b>	<b>2004</b>
Revenue	\$ 92.0	\$ 87.6	\$ 280.0	\$ 267.5
Operating profit	3.4	0.8	19.6	18.2
<b>Operating margin</b>	<b>3.7%</b>	<b>0.9%</b>	<b>7.0%</b>	<b>6.8%</b>

Revenues in the *International* segment for the quarter ended February 28, 2005 increased \$4.4 million, or 5.0%, to \$92.0 million, compared to \$87.6 million in the prior fiscal year quarter, primarily due to the favorable impact of foreign currency exchange rates of \$3.8 million. Segment revenues for the nine months ended February 28, 2005 increased \$12.5 million, or 4.7%, to \$280.0 million, compared to \$267.5 million in the prior fiscal year period. This increase was primarily due to the favorable impact of foreign currency exchange rates of \$14.3 million and local currency revenue growth in Australia equivalent to \$4.3 million, partially offset by lower revenues in the export business of \$6.5 million, principally due to a higher level of Department of Defense orders for educational materials in the prior fiscal year period.

Segment operating profit for the quarter ended February 28, 2005 increased \$2.6 million to \$3.4 million, compared to \$0.8 million in the prior fiscal year quarter, primarily due to a lower local currency operating loss in Australia. Segment operating profit for the nine months ended February 28, 2005 increased \$1.4 million, or 7.7%, to \$19.6 million, compared to \$18.2 million in the prior fiscal year period. This increase was primarily due to increased local currency operating profit in Australia equivalent to \$3.8 million and the favorable impact of foreign currency exchanges rates of \$1.2 million, partially offset by decreased operating profit in the export business of \$3.6 million.

### **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 consequence, 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 are highest in the first quarter. The Company experiences a substantial loss from operations in the first quarter of each fiscal year.

In the June through October time period, the Company experiences negative cash flow due to the seasonality of its business. As a result of the Company's business cycle, seasonal 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.



### Liquidity and Capital Resources

The Company's cash and cash equivalents were \$22.1 million at February 28, 2005, compared to \$20.9 million at February 29, 2004 and \$17.8 million at May 31, 2004.

Net cash provided by operating activities was \$105.0 million for the nine-month period ended February 28, 2005, compared to \$118.4 million in the prior fiscal year period. The decline from the prior fiscal year period was principally due to lower Net income in the current fiscal year period.

Net cash used in investing activities was \$109.8 million for the nine-month period ended February 28, 2005, compared to \$105.7 million in the prior fiscal year period. The increase was principally due to increases in Royalty advances and Additions to property, plant and equipment of \$6.3 million and \$4.9 million, respectively, in the current fiscal year period as compared to the prior fiscal year period, as well as the impact \$8.8 million in Acquisition-related payments in the prior fiscal year period.

Net cash provided by financing activities was \$8.6 million for the nine-month period ended February 28, 2005, compared to net cash used in financing activities of \$51.0 million in the prior fiscal year period, substantially due to the repayment at maturity of all \$125.0 million of the Company's 7% Notes (the "7% Notes") on December 15, 2003.

The Company believes its existing cash position, combined with funds generated from operations and available under the Credit Agreement and the Revolver, described in "Financing" below, will be sufficient to finance its ongoing working capital requirements. The Company anticipates refinancing its debt obligations prior to their respective maturity dates, to the extent not paid through cash flow.

### Financing

On March 31, 2004, Scholastic Corporation and Scholastic Inc. entered into an unsecured revolving credit agreement with certain banks (the "Credit Agreement"), which replaced a similar loan agreement that was scheduled to expire on August 11, 2004 (the "Loan Agreement"). The Credit Agreement, which expires on March 31, 2009, provides for aggregate borrowings of up to \$190.0 million (with a right in certain circumstances to increase borrowings to \$250.0 million), including the issuance of up to \$10.0 million in letters of credit. Interest under this facility is either at the prime rate or 0.325% to 0.975% over LIBOR (as defined). There is a facility fee ranging from 0.10% to 0.30% and a utilization fee ranging from 0.05% to 0.25% if borrowings exceed 50% of the total facility. The amounts charged vary based upon the Company's credit rating. The interest rate, facility fee and utilization fee (when applicable) as of February 28, 2005 were 0.55% over LIBOR, 0.15% and 0.10%, respectively. The Credit Agreement contains certain financial covenants related to debt and interest coverage ratios (as defined) and limits dividends and other distributions. At both February 28, 2005 and May 31, 2004, \$12.0 million was outstanding under the Credit Agreement at a weighted average interest rate of 3.1% and 1.7%, respectively. At February 29, 2004, \$45.0 million was outstanding under the Loan Agreement at a weighted average interest rate of 1.5%. The decrease in borrowings outstanding under the Credit Agreement at both February 28, 2005 and May 31, 2004 as compared to borrowings outstanding under the Loan Agreement as of February 29, 2004 was principally due to the repayment of the 7% Notes at maturity on December 15, 2003.

Scholastic Corporation and Scholastic Inc. are joint and several borrowers under an unsecured revolving loan agreement with a bank (the "Revolver"). As amended effective April 30, 2004, the Revolver provides for unsecured revolving credit of up to \$40.0 million and expires on March 31, 2009. Interest under this facility is either at the prime rate minus 1%, or 0.375% to 1.025% over LIBOR (as defined). There is a facility fee ranging from 0.10% to 0.30%. The amounts charged vary based upon the Company's credit rating. The interest rate and facility fee as of February 28, 2005 were 0.60% over LIBOR and 0.15%, respectively. The Revolver contains certain financial covenants related to debt and interest coverage ratios (as defined) and limits dividends and other distributions. There were no borrowings outstanding under the Revolver at February 28, 2005. At February 29, 2004 and May 31, 2004, \$23.7 million and \$2.2 million, respectively, were outstanding under the Revolver at a weighted average interest rate of 1.7% and 3.0%, respectively. The decrease in borrowings outstanding under the Revolver at both February 28, 2005 and May 31, 2004 as compared to borrowings outstanding as of February 29, 2004 was principally due to the repayment of the 7% Notes at maturity on December 15, 2003.

Unsecured lines of credit available in local currencies to Scholastic Corporation's international subsidiaries for local working capital needs were equivalent to \$64.6 million at February 28, 2005, as compared to \$66.8 million at February 29, 2004 and \$62.1 million at May 31, 2004. There were borrowings outstanding under these lines of credit equivalent to \$20.8 million at February 28, 2005, as compared to \$26.8 million at February 29, 2004 and \$23.0 million at May 31, 2004. These lines of credit are considered short-term in nature. The weighted average interest rates on the outstanding amounts were 6.1% at both February 28, 2005 and February 29, 2004 and 5.5% at May 31, 2004.

The Company's total debt obligations at February 28, 2005, February 29, 2004 and May 31, 2004 were \$510.3 million, \$574.5 million and \$516.6 million, respectively, with the higher level of borrowings at February 29, 2004 principally due to increased borrowings under revolving credit agreements. 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."

### **Forward Looking Statements**

This Report on Form 10-Q contains forward-looking statements. These forward-looking statements are subject to various risks and uncertainties, including the condition 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 Company's Annual Report on Form 10-K for the fiscal year ended May 31, 2004, and from time to time in the Company's other filings with the Securities and Exchange Commission ("SEC"). Actual results could differ materially from those currently anticipated.

The Company has operations in various foreign countries. In the normal course of business, these operations are exposed to fluctuations in currency values. Management believes that the impact of currency fluctuations does not represent a significant risk in the context of the Company's current international operations. In the normal course of business, the Company's operations outside the United States periodically enter into short-term forward contracts (generally not exceeding \$20.0 million) to match selected purchases not denominated in their respective local currencies.

Market risks relating to the Company's operations result primarily from changes in interest rates, which are managed by balancing the mix of variable-rate versus fixed-rate borrowings. Additionally, financial instruments, including swap agreements, have been used to manage interest rate exposures. Approximately 6% of the Company's debt at February 28, 2005 bore interest at a variable rate and was sensitive to changes in interest rates, compared to approximately 7% at May 31, 2004 and approximately 17% at February 29, 2004, with the decreases from February 29, 2004 due to higher levels of borrowings under revolving credit agreements at that date. The Company is subject to the risk that market interest rates 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 February 28, 2005 (see Note 3 of Notes to Condensed Consolidated Financial Statements - Unaudited in Item 1, "Financial Statements"):

(\$ amounts in millions)

	Fiscal Year Maturity							Total
	2005	2006	2007	2008	2009	Thereafter		
<b>Debt Obligations</b>								
Lines of credit	\$ 20.8	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 20.8
Average interest rate	6.14%							
Long-term debt including current portion:								
Fixed-rate debt	\$ 0.5	\$ -	\$ 300.0	\$ -	\$ -	\$ 175.0	\$ -	\$ 475.5
Average interest rate	12.03%		5.75%			5.0%		
Variable-rate debt	\$ -	\$ -	\$ -	\$ -	\$ 12.0 <sup>(1)</sup>	\$ -	\$ -	\$ 12.0
Average interest rate					3.12%			

(1) Represents amounts drawn on the Credit Agreement, which expires in 2009.

The Chief Executive Officer and the Chief Financial Officer of Scholastic 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 the end of the period covered by this report, have concluded that the Corporation's disclosure controls and procedures were effective to ensure that information required to be disclosed by the Corporation in its reports filed or submitted under the Securities Exchange Act of 1934 is recorded, processed, summarized, and reported within the time periods specified in the rules and forms of the SEC. There was no change in the Corporation's internal controls over financial reporting that occurred during the quarter ended February 28, 2005 that has materially affected, or is reasonably likely to materially affect, the Corporation's internal control over financial reporting.

## **PART II – OTHER INFORMATION**

### **SCHOLASTIC CORPORATION**

#### **Item 6. Exhibits**

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Exhibits:

- 31.1 Certification of the Chief Executive Officer of Scholastic Corporation filed pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 31.2 Certification of the Chief Financial Officer of Scholastic Corporation filed pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 32 Certifications of the Chief Executive Officer and Chief Financial Officer of Scholastic Corporation furnished pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

**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.

**SCHOLASTIC CORPORATION**  
(Registrant)

Date: April 8, 2005

/s/ Richard Robinson

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

Date: April 8, 2005

/s/ Mary A. Winston

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Mary A. Winston  
*Executive Vice President and*  
*Chief Financial Officer*

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

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)) 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) 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
  - c) 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: April 8, 2005

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

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I, Mary A. Winston, 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)) for the registrant and have:
  - b) 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) 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
  - c) 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: April 8, 2005

/s/Mary A. Winston  
Mary A. Winston  
Executive Vice President  
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 February 28, 2005**  
**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 February 28, 2005 (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: April 8, 2005

/s/ Richard Robinson  
Richard Robinson  
Chief Executive Officer

Dated: April 8, 2005

/s/Mary A. Winston  
Mary A. Winston  
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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