

SCHOLASTIC CORP
Form 10-Q
December 16, 2016

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

FORM 10-Q

Quarterly Report pursuant to section 13 or 15(d) of the Securities Exchange Act of 1934

For the quarterly period ended November 30, 2016 Commission File No. 000-19860

SCHOLASTIC CORPORATION
(Exact name of Registrant as specified in its charter)
Delaware 13-3385513
(State or
other
jurisdiction
of (IRS Employer Identification No.)
incorporation
or
organization)

557
Broadway,
New York 10012
York,
New York
(Address
of
principal executive
offices) (Zip Code)

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

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

Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (229.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes No

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Indicate by check mark whether the Registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of “large accelerated filer,” “accelerated filer” and “smaller reporting company” in Rule 12b-2 of the Exchange Act.

Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company

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

Yes No

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 November 30, 2016 |
|--------------------------------|---|
| Common Stock, \$.01 par value | 32,832,399 |
| Class A Stock, \$.01 par value | 1,656,200 |

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SCHOLASTIC CORPORATION

FORM 10-Q FOR THE QUARTERLY PERIOD ENDED NOVEMBER 30, 2016

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PART I - FINANCIAL INFORMATION

Item 1. Financial Statements

SCHOLASTIC CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS - UNAUDITED

(Dollar amounts in millions, except per share data)

| | Three months ended | | Six months ended | |
|--|-----------------------|-----------|---------------------|-----------|
| | November 30, | | November 30, | |
| | 2016 | 2015 | 2016 | 2015 |
| Revenues | \$623.1 | \$601.8 | \$905.8 | \$793.0 |
| Operating costs and expenses: | | | | |
| Cost of goods sold | 271.3 | 257.1 | 441.0 | 371.6 |
| Selling, general and administrative expenses (exclusive of depreciation and amortization) | 230.8 | 229.0 | 397.4 | 374.7 |
| Depreciation and amortization | 9.6 | 10.6 | 19.1 | 21.1 |
| Total operating costs and expenses | 511.7 | 496.7 | 857.5 | 767.4 |
| Operating income (loss) | 111.4 | 105.1 | 48.3 | 25.6 |
| Interest income (expense), net | (0.4) | (0.5) | (0.7) | (0.6) |
| Gain (loss) on investments | — | 2.2 | — | 2.2 |
| Earnings (loss) from continuing operations before income taxes | 111.0 | 106.8 | 47.6 | 27.2 |
| Provision (benefit) for income taxes | 43.1 | 41.6 | 19.2 | 10.9 |
| Earnings (loss) from continuing operations | 67.9 | 65.2 | 28.4 | 16.3 |
| Earnings (loss) from discontinued operations, net of tax | 0.0 | (0.3) | (0.1) | (0.8) |
| Net income (loss) | \$67.9 | \$64.9 | \$28.3 | \$15.5 |
| Basic and diluted earnings (loss) per Share of Class A and Common Stock | | | | |
| Basic: | | | | |
| Earnings (loss) from continuing operations | \$1.96 | \$1.90 | \$0.82 | \$0.48 |
| Earnings (loss) from discontinued operations, net of tax | \$0.00 | \$(0.01) | \$(0.00) | \$(0.02) |
| Net income (loss) | \$1.96 | \$1.89 | \$0.82 | \$0.46 |
| Diluted: | | | | |
| Earnings (loss) from continuing operations | \$1.92 | \$1.85 | \$0.81 | \$0.47 |
| Earnings (loss) from discontinued operations, net of tax | \$0.00 | \$(0.01) | \$(0.01) | \$(0.03) |
| Net income (loss) | \$1.92 | \$1.84 | \$0.80 | \$0.44 |
| Dividends declared per Class A and Common Share | \$0.15 | \$0.15 | \$0.30 | \$0.30 |

See accompanying notes

SCHOLASTIC CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS) - UNAUDITED

(Dollar amounts in millions)

| | Three months ended | | Six months ended | |
|--|--------------------|----------|------------------|----------|
| | November 30, | | November 30, | |
| | 2016 | 2015 | 2016 | 2015 |
| Net income (loss) | \$67.9 | \$64.9 | \$28.3 | \$15.5 |
| Other comprehensive income (loss), net: | | | | |
| Foreign currency translation adjustments | (5.1) | (0.9) | (7.0) | (8.2) |
| Pension and post-retirement adjustments (net of tax) | 0.7 | 0.8 | 1.4 | 1.5 |
| Total other comprehensive income (loss) | \$(4.4) | \$(0.1) | \$(5.6) | \$(6.7) |
| Comprehensive income (loss) | \$63.5 | \$64.8 | \$22.7 | \$8.8 |

See accompanying notes

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

| | November 30, 2016 | May 31, 2016 | November 30, 2015 |
|---|----------------------|-----------------|----------------------|
| ASSETS | | | |
| Current Assets: | | | |
| Cash and cash equivalents | \$ 442.9 | \$399.7 | \$ 360.9 |
| Restricted cash held in escrow | — | 9.9 | 24.7 |
| Accounts receivable, net | 281.6 | 196.3 | 252.2 |
| Inventories, net | 348.3 | 271.2 | 332.0 |
| Deferred income taxes | — | — | 81.2 |
| Prepaid expenses and other current assets | 59.8 | 72.5 | 59.1 |
| Current assets of discontinued operations | 0.4 | 0.5 | 0.6 |
| Total current assets | 1,133.0 | 950.1 | 1,110.7 |
| Property, plant and equipment, net | 446.1 | 437.6 | 438.9 |
| Prepublication costs, net | 42.7 | 41.8 | 48.9 |
| Royalty advances, net | 43.0 | 44.0 | 41.7 |
| Goodwill | 116.2 | 116.2 | 116.2 |
| Noncurrent deferred income taxes | 69.0 | 68.5 | 5.6 |
| Other assets and deferred charges | 57.5 | 54.9 | 61.2 |
| Total noncurrent assets | 774.5 | 763.0 | 712.5 |
| Total assets | \$ 1,907.5 | \$1,713.1 | \$ 1,823.2 |

LIABILITIES AND STOCKHOLDERS' EQUITY

| | | | |
|---|--------|-------|---------|
| Current Liabilities: | | | |
| Lines of credit and current portion of long-term debt | \$ 7.3 | \$6.3 | \$ 12.0 |
| Accounts payable | 216.4 | 138.2 | 207.8 |
| Accrued royalties | 71.4 | 31.6 | 36.9 |
| Deferred revenue | 81.9 | 23.5 | 74.7 |
| Other accrued expenses | 178.3 | 175.9 | 162.9 |
| Accrued income taxes | 4.0 | 1.6 | 3.5 |
| Current liabilities of discontinued operations | 0.1 | 1.2 | 1.6 |
| Total current liabilities | 559.4 | 378.3 | 499.4 |
| Noncurrent Liabilities: | | | |
| Other noncurrent liabilities | 72.9 | 77.2 | 75.7 |
| Total noncurrent liabilities | 72.9 | 77.2 | 75.7 |

Commitments and Contingencies (see Note 5)

| | | | |
|---|---------|----------|----------|
| Stockholders' Equity: | | | |
| Preferred Stock, \$1.00 par value | — | — | — |
| Class A Stock, \$0.01 par value | 0.0 | 0.0 | 0.0 |
| Common Stock, \$0.01 par value | 0.4 | 0.4 | 0.4 |
| Additional paid-in capital | 602.1 | 600.7 | 600.7 |
| Accumulated other comprehensive income (loss) | (92.3 |) (86.7 |) (83.7 |
| Retained earnings | 1,077.7 | 1,059.8 | 1,045.1 |
| Treasury stock at cost | (312.7 |) (316.6 |) (314.4 |

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| | | | |
|--|------------|-----------|------------|
| Total stockholders' equity | 1,275.2 | 1,257.6 | 1,248.1 |
| Total liabilities and stockholders' equity | \$ 1,907.5 | \$1,713.1 | \$ 1,823.2 |

See accompanying notes

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

| | Six months ended November 30, | |
|--|-------------------------------------|---------|
| | 2016 | 2015 |
| Cash flows - operating activities: | | |
| Net income (loss) | 28.3 | 15.5 |
| Earnings (loss) from discontinued operations, net of tax | (0.1) | (0.8) |
| Earnings (loss) from continuing operations | 28.4 | 16.3 |
| Adjustments to reconcile earnings (loss) from continuing operations to net cash provided by (used in) operating activities of continuing operations: | | |
| Provision for losses on accounts receivable | 7.7 | 5.8 |
| Provision for losses on inventory | 7.4 | 9.1 |
| Provision for losses on royalty advances | 2.2 | 1.7 |
| Amortization of prepublication and production costs | 11.7 | 13.8 |
| Depreciation and amortization | 19.3 | 21.3 |
| Amortization of pension and post-retirement actuarial gains and losses | 2.1 | 2.2 |
| Deferred income taxes | (0.6) | 0.3 |
| Stock-based compensation | 7.1 | 6.5 |
| Income from equity investments | (4.9) | (2.4) |
| (Gain) loss on investments | — | (2.2) |
| Changes in assets and liabilities, net of amounts acquired: | | |
| Accounts receivable | (96.6) | (68.7) |
| Inventories | (87.7) | (86.1) |
| Prepaid expenses and other current assets | 7.4 | (19.3) |
| Deferred promotion costs | (3.1) | (3.4) |
| Royalty advances | (1.6) | (4.4) |
| Accounts payable | 76.1 | 46.1 |
| Other accrued expenses | 3.6 | (9.5) |
| Accrued income taxes | 2.5 | (150.9) |
| Accrued royalties | 40.4 | 10.5 |
| Deferred revenue | 58.5 | 53.5 |
| Pension and post-retirement liabilities | (3.1) | (2.6) |
| Other noncurrent liabilities | (1.4) | (1.8) |
| Other, net | (0.1) | (3.0) |
| Total adjustments | 46.9 | (183.5) |
| Net cash provided by (used in) operating activities of continuing operations | 75.3 | (167.2) |
| Net cash provided by (used in) operating activities of discontinued operations | (1.1) | (10.8) |
| Net cash provided by (used in) operating activities | 74.2 | (178.0) |
| Cash flows - investing activities: | | |
| Prepublication and production expenditures | (13.0) | (11.4) |
| Additions to property, plant and equipment | (19.5) | (12.0) |
| Other investment and acquisition-related payments | (0.4) | (3.7) |
| Proceeds from the sale of investments | — | 3.3 |

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| | | |
|--|--------|---------|
| Net cash provided by (used in) investing activities of continuing operations | (32.9) | (23.8) |
| Changes in restricted cash held in escrow for discontinued assets | 9.9 | 9.8 |
| Net cash provided by (used in) investing activities | (23.0) | (14.0) |

See accompanying notes

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

| | Six months ended November 30, 2016 2015 | |
|---|--|----------|
| Cash flows - financing activities: | | |
| Borrowings under lines of credit | 24.8 | 32.5 |
| Repayments of lines of credit | (22.6) | (26.2) |
| Repayment of capital lease obligations | (0.6) | (0.3) |
| Reacquisition of common stock | (6.0) | — |
| Proceeds pursuant to stock-based compensation plans | 7.6 | 33.7 |
| Payment of dividends | (10.4) | (10.2) |
| Net collections (remittances) under transition services agreement | 0.3 | 12.9 |
| Other | (0.7) | 4.4 |
| Net cash provided by (used in) financing activities | (7.6) | 46.8 |
| Effect of exchange rate changes on cash and cash equivalents | (0.4) | (0.7) |
| Net increase (decrease) in cash and cash equivalents | 43.2 | (145.9) |
| Cash and cash equivalents at beginning of period | 399.7 | 506.8 |
| Cash and cash equivalents at end of period | \$442.9 | \$360.9 |

See accompanying notes

SCHOLASTIC CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS – UNAUDITED

(Dollar amounts in millions, except per share data)

1. BASIS OF PRESENTATION

Principles of consolidation

The accompanying condensed consolidated financial statements include the accounts of Scholastic Corporation (the “Corporation”) and all wholly-owned and majority-owned subsidiaries (collectively, “Scholastic” or the “Company”). Intercompany transactions are eliminated in consolidation. These financial statements have not been audited but reflect those adjustments consisting of normal recurring items that management considers necessary for a fair presentation of financial position, results of operations, comprehensive income (loss) and cash flows. These financial statements should be read in conjunction with the consolidated financial statements and related notes in the Annual Report on Form 10-K for the fiscal year ended May 31, 2016 (the “Annual Report”).

The Company’s fiscal year is not a calendar year. Accordingly, references in this document to fiscal 2016 relate to the twelve-month period ended May 31, 2016. Certain reclassifications have been made to conform to the current year presentation.

Seasonality

The Company’s Children’s Book Publishing and Distribution school-based book fair and book club channels and most of its Education businesses operate on a school-year basis; therefore, the Company’s business is highly seasonal. As a result, the Company’s revenues in the first and third quarters of the fiscal year generally are lower than its revenues in the other two fiscal quarters. Typically, school-based channel and magazine revenues are minimal in the first quarter of the fiscal year as schools are not in session. Trade sales can vary through the year due to varying release dates of published titles. The Company generally experiences a loss from operations in the first and third quarters of each fiscal year.

Use of estimates

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

- Accounts receivable reserves for returns
- Accounts receivable allowance for doubtful accounts
- Pension and other post-retirement obligations
- Uncertain tax positions
- Inventory reserves
- Cost of goods sold from book fair operations during interim periods determined based on estimated gross profit rates

• Sales taxes

• Royalty advance reserves

• Customer reward programs

• Impairment testing for goodwill for assessment and measurement, and other long-lived assets and investments

• Assets and liabilities acquired in business combinations.

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

New Accounting Pronouncements

ASU 2016-16

In October 2016, the Financial Accounting Standards Board (the "FASB") issued Accounting Standards Update (the "ASU") 2016-16, "Intra-Entity Transfers of Assets Other Than Inventory." The ASU removes the prohibition against the immediate recognition of the current and deferred income tax effects of intra-entity transfers of assets other than inventory. The ASU, which is part of the FASB's simplification initiative, is intended to reduce the complexity and diversity in practice related to the tax consequences of certain types of intra-entity asset transfers, particularly those involving intellectual property.

The ASU will be effective for the Company in the first quarter of fiscal 2019. The Company is evaluating the impact of this ASU on its consolidated financial position, results of operations and cash flows.

ASU 2016-18 and ASU 2016-15

In November 2016 and August 2016, the FASB issued ASU 2016-18, Statement of Cash Flows (Topic 230): Restricted Cash and ASU 2016-15, Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments (A Consensus of the FASB Emerging Issues Task Force), respectively, which address specific statement of cash flows classification issues.

The ASUs will be effective for the Company in the first quarter of fiscal 2019. The Company is evaluating the impact of these ASUs on its cash flows.

ASU 2016-13

In June 2016, the FASB issued ASU 2016-13, Financial Instruments - Credit Losses (Topic 326). This ASU introduces amendments to the accounting for credit losses on instruments defined within the ASU's scope and will impact both financial services and non-financial services entities. Due to its broad scope, which includes trade and lease receivables, this ASU states that it is likely that all entities will need to evaluate the impact of its amendments. Under the amendments, an entity will recognize, as an allowance, its estimate of expected credit losses, which the FASB believes will result in more timely recognition of such losses. The ASU does not prescribe a specific method to make the estimate so its application will require significant judgment. This ASU is effective for fiscal years beginning after December 15, 2019, and interim periods within those fiscal years. Early adoption will be permitted for all entities for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years.

The ASU will be effective for the Company in the first quarter of fiscal 2021. The Company is evaluating the impact of this ASU on its consolidated financial position, results of operations and cash flows.

ASU 2016-09

In March 2016, the FASB issued ASU 2016-09, Compensation - Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting. The amendments in this ASU require, among other things, that all income tax effects of awards be recognized in the income statement when the awards vest or are settled. The ASU also allows for an employer to repurchase more of an employee's shares than it currently can for tax withholding purposes without triggering liability accounting and allows for a policy election to account for forfeitures as they occur. The amendments in this ASU are effective for fiscal years beginning after December 15, 2016, including interim periods within those fiscal years. Early adoption is permitted for any entity in any interim or annual period.

The ASU will be effective for the Company in the first quarter of fiscal 2018. The Company is evaluating the impact of this ASU on its consolidated financial position, results of operations and cash flows.

ASU 2016-02

In February 2016, the FASB issued ASU 2016-02, Leases (Topic 842). The amendments in this ASU require, among other things, lessees to recognize a right-of-use asset and a lease liability in the balance sheet for all leases. The lease liability will be measured at the present value of the lease payments over the lease term and the right-of-use asset will be measured at the lease liability amount, adjusted for lease prepayments, lease incentives received and lessee's initial direct costs (e.g., commissions). The amendments in this ASU will take effect for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. Earlier application is permitted as of the beginning of an interim or annual reporting period.

SCHOLASTIC CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS – UNAUDITED

(Dollar amounts in millions, except per share data)

The ASU will be effective for the Company in the first quarter of fiscal 2020. The Company is evaluating the impact of this ASU on its consolidated financial position, results of operations and cash flows.

ASU 2015-11

In July 2015, the FASB issued ASU 2015-11, Inventory (Topic 330): Simplifying the Measurement of Inventory, as part of its Simplification Initiative. Currently, inventory is measured at the lower of cost or market. The amendments in this ASU require entities that measure inventory using any method other than last-in, first-out or the retail inventory method to measure inventory at the lower of cost and net realizable value. Net realizable value is the estimated selling price in the ordinary course of business less reasonably predictable costs of completion, disposal and transportation. The amendments in this ASU are effective for fiscal years beginning after December 15, 2016, including interim periods within those fiscal years. The amendments should be applied prospectively and earlier application is permitted as of the beginning of an interim or fiscal year period.

The ASU will be effective for the Company in the first quarter of fiscal 2018. The Company is evaluating the impact of this ASU on its consolidated financial position, results of operations and cash flows.

Topic 606, Revenue from Contracts with Customers

In May 2014, the FASB announced that it is amending the FASB Accounting Standards Codification ("ASC") by issuing ASU 2014-09, Topic 606, Revenue from Contracts with Customers (the "New Revenue Standard"). The amendments in this ASU provide a single model for use in accounting for revenue arising from contracts with customers and supersedes current revenue recognition guidance, including industry-specific revenue guidance. The core principle of the new ASU is that revenue should be recognized to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods and services. New disclosures about the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers are also required. In August 2015, the FASB issued ASU 2015-14 which deferred the effective date of the New Revenue Standard. In 2016, the FASB issued ASU 2016-08, ASU 2016-10, ASU 2016-11, and ASU 2016-12 to clarify, among other things, the implementation guidance related to principal versus agent considerations, identifying performance obligations, and accounting for licenses of intellectual property. The New Revenue Standard is effective for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. Early application is not permitted. The amendments in this update are to be applied on a retrospective basis, either to each prior reporting period presented or by presenting the cumulative effect of applying the update recognized at the date of initial application.

The New Revenue Standard will be effective for the Company in the first quarter of fiscal 2019. The Company is evaluating the adoption methodology and the impact of this ASU on its consolidated financial position, results of operations and cash flows.

2. DISCONTINUED OPERATIONS

The Company continuously evaluates its portfolio of businesses for both impairment and economic viability, as well as for possible strategic dispositions. The Company monitors the expected cash proceeds to be realized from the disposition of discontinued operations' assets, and adjusts asset values accordingly.

During the six month period ended November 30, 2016, the Company did not dispose of any new components of the business that would meet the criteria for discontinued operations reporting.

On May 29, 2015, the Company completed the sale of substantially all of the assets comprising its former educational technology and services (“Ed Tech”) business and categorized this business as a discontinued operation. In connection with the sale of the Ed Tech business to the purchaser, the Company entered into a transition services agreement whereby the Company provided administrative, distribution and other services to the purchaser. Transition service fees under this agreement were recorded as a reduction to Selling, general and administrative expenses. All services under the transition services agreement were terminated on August 1, 2016.

As of November 30, 2016, the Company had adequately fulfilled all service requirements and there were no hold backs from the escrow for breaches of representations and warranties or other claims. Accordingly, the remaining \$5.0 was released in the second quarter of fiscal 2017 from Restricted cash held in escrow in accordance with the escrow agreement between the purchaser and the Company.

SCHOLASTIC CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS – UNAUDITED

(Dollar amounts in millions, except per share data)

The following table summarizes the operating results of the discontinued operations:

| | Three months ended November 30, | | Six months ended November 30, | |
|--|---|---------|--|---------|
| | 2016 | 2015 | 2016 | 2015 |
| Revenues | \$0.1 | \$0.2 | \$0.2 | \$0.3 |
| Operating costs and expenses | 0.1 | 0.6 | 0.4 | 1.6 |
| Interest income (expense) | 0.0 | 0.1 | 0.0 | 0.1 |
| Earnings (loss) before income taxes | \$0.0 | \$(0.3) | \$(0.2) | \$(1.2) |
| Provision (benefit) for income taxes | (0.0) | (0.0) | (0.1) | (0.4) |
| Earnings (loss) from discontinued operations, net of tax | \$0.0 | \$(0.3) | \$(0.1) | \$(0.8) |

The following table sets forth the assets and liabilities of the discontinued operations included in the condensed consolidated balance sheets of the Company:

| | November 30, 2016 | May 31, 2016 | November 30, 2015 |
|--|----------------------|-----------------|----------------------|
| Accounts receivable, net | \$ 0.0 | \$ 0.0 | \$ 0.1 |
| Prepaid expenses and other current assets | 0.4 | 0.5 | 0.5 |
| Current assets of discontinued operations | \$ 0.4 | \$ 0.5 | \$ 0.6 |
| Accounts payable | — | 0.0 | — |
| Accrued royalties | 0.0 | 0.0 | 0.1 |
| Deferred revenue | — | — | 0.1 |
| Other accrued expenses | 0.1 | 1.2 | 1.4 |
| Current liabilities of discontinued operations | \$ 0.1 | \$ 1.2 | \$ 1.6 |

As of November 30, 2016, May 31, 2016 and November 30, 2015, assets and liabilities of discontinued operations primarily related to insignificant continuing cash flows from passive activities.

3. SEGMENT INFORMATION

The Company categorizes its businesses into three reportable segments: Children's Book Publishing and Distribution; Education; and International. This classification reflects the nature of products and services consistent with the method by which the Company's chief operating decision-maker assesses operating performance and allocates resources.

Children's Book Publishing and Distribution operates as an integrated business which includes the publication and distribution of children's books, ebooks, media and interactive products in the United States through its book clubs and book fairs in its school channels and through the trade channel. This segment is comprised of three operating segments.

Education includes the publication and distribution to schools and libraries of children's books, classroom magazines, supplemental classroom materials and print and on-line reference and non-fiction products for grades pre-kindergarten

to 12 in the United States. This segment is comprised of two operating segments.

International includes the publication and distribution of products and services outside the United States by the Company's international operations, and its export and foreign rights businesses. This segment is comprised of three operating segments.

11

SCHOLASTIC CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS – UNAUDITED

(Dollar amounts in millions, except per share data)

| | Children's Book Publishing & Distribution | Education | Overhead ⁽¹⁾ | Total Domestic | International | Total |
|--|---|-----------|-------------------------|-------------------|---------------|---------|
| Three months ended | | | | | | |
| November 30, 2016 | | | | | | |
| Revenues | \$ 432.5 | \$ 71.1 | \$ — | \$ 503.6 | \$ 119.5 | \$623.1 |
| Bad debt | 1.9 | 0.6 | — | 2.5 | 2.3 | 4.8 |
| Depreciation and amortization ⁽²⁾ | 5.7 | 2.1 | 5.7 | 13.5 | 2.0 | 15.5 |
| Segment operating income (loss) | 121.1 | 8.7 | (34.9) | 94.9 | 16.5 | 111.4 |
| Expenditures for long-lived assets including royalty advances | 11.4 | 2.4 | 6.1 | 19.9 | 3.2 | 23.1 |
| Three months ended | | | | | | |
| November 30, 2015 | | | | | | |
| Revenues | \$ 413.7 | \$ 72.4 | \$ — | \$ 486.1 | \$ 115.7 | \$601.8 |
| Bad debt | 2.1 | 1.2 | — | 3.3 | 1.0 | 4.3 |
| Depreciation and amortization ⁽²⁾ | 7.2 | 3.4 | 4.9 | 15.5 | 2.1 | 17.6 |
| Segment operating income (loss) | 110.4 | 10.4 | (27.2) | 93.6 | 11.5 | 105.1 |
| Expenditures for long-lived assets including royalty advances | 10.5 | 1.8 | 3.5 | 15.8 | 6.2 | 22.0 |
| | Children's Book Publishing & Distribution | Education | Overhead ⁽¹⁾ | Total Domestic | International | Total |
| Six months ended | | | | | | |
| November 30, 2016 | | | | | | |
| Revenues | \$ 570.3 | \$ 126.3 | \$ — | \$ 696.6 | \$ 209.2 | \$905.8 |
| Bad debt expense | 3.2 | 0.5 | — | 3.7 | 4.0 | 7.7 |
| Depreciation and amortization ⁽²⁾ | 11.3 | 4.1 | 11.4 | 26.8 | 4.0 | 30.8 |
| Segment operating income (loss) | 84.9 | 4.3 | (61.3) | 27.9 | 20.4 | 48.3 |
| Segment assets at November 30, 2016 | 552.1 | 164.5 | 918.5 | 1,635.1 | 272.0 | 1,907.1 |
| Goodwill at November 30, 2016 | 40.9 | 65.4 | — | 106.3 | 9.9 | 116.2 |
| Expenditures for long-lived assets including royalty advances | 37.3 | 5.0 | 14.6 | 56.9 | 6.0 | 62.9 |
| Long-lived assets at November 30, 2016 | 142.4 | 83.0 | 389.5 | 614.9 | 66.3 | 681.2 |
| Six months ended | | | | | | |
| November 30, 2015 | | | | | | |
| Revenues | \$ 481.4 | \$ 122.8 | \$ — | \$ 604.2 | \$ 188.8 | \$793.0 |
| Bad debt expense | 2.5 | 1.2 | — | 3.7 | 2.1 | 5.8 |
| Depreciation and amortization ⁽²⁾ | 14.4 | 6.7 | 9.7 | 30.8 | 4.1 | 34.9 |
| Segment operating income (loss) | 54.4 | 6.1 | (43.7) | 16.8 | 8.8 | 25.6 |

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| | | | | | | |
|--|-------|-------|-------|---------|-------|---------|
| Segment assets at November 30, 2015 | 510.4 | 162.7 | 878.0 | 1,551.1 | 271.5 | 1,822.6 |
| Goodwill at November 30, 2015 | 40.9 | 65.4 | — | 106.3 | 9.9 | 116.2 |
| Expenditures for long-lived assets including royalty advances | 20.3 | 3.5 | 8.2 | 32.0 | 8.2 | 40.2 |
| Long-lived assets at November 30, 2015 | 144.1 | 88.8 | 378.5 | 611.4 | 69.7 | 681.1 |

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

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

SCHOLASTIC CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS – UNAUDITED

(Dollar amounts in millions, except per share data)

4. DEBT

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

| | November 30, 2016 | May 31, 2016 | November 30, 2015 |
|---|----------------------|-----------------|----------------------|
| Loan Agreement: | | | |
| Revolving Loan (interest rates of n/a) | \$ — | \$ — | \$ — |
| Unsecured short term lines of credit (weighted average interest rates of 4.1%, 4.4% and 3.3%, respectively) | 7.3 | 6.3 | 12.0 |
| Total debt | \$ 7.3 | \$ 6.3 | \$ 12.0 |

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

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Loan Agreement

Scholastic Corporation and Scholastic Inc. (each, a “Borrower” and together, the “Borrowers”) are parties to a \$425.0 credit facility with certain banks (as amended, the “Loan Agreement”), which allows the Company to borrow, repay or prepay and reborrow at any time prior to the December 5, 2017 maturity date. Under the Loan Agreement, interest on amounts borrowed thereunder is due and payable in arrears on the last day of the interest period (defined as the period commencing on the date of the advance and ending on the last day of the period selected by the Borrower at the time each advance is made). The interest pricing under the Loan Agreement is dependent upon the Borrower’s election of a rate that is either:

A Base Rate equal to the higher of (i) the prime rate, (ii) the prevailing Federal Funds rate plus 0.500% or (iii) the Eurodollar Rate for a one month interest period plus 1% plus, in each case, an applicable spread ranging from 0.18% to 0.60%, as determined by the Company’s prevailing consolidated debt to total capital ratio.

- or -

A Eurodollar Rate equal to the London interbank offered rate (LIBOR) plus an applicable spread ranging from 1.18% to 1.60%, as determined by the Company’s prevailing consolidated debt to total capital ratio.

As of November 30, 2016, the indicated spread on Base Rate Advances was 0.18% and the indicated spread on Eurodollar Rate Advances was 1.18%, both based on the Company’s prevailing consolidated debt to total capital ratio.

The Loan Agreement also provides for the payment of a facility fee ranging from 0.20% to 0.40% per annum based upon the Company’s prevailing consolidated debt to total capital ratio. At November 30, 2016, the facility fee rate was 0.20%.

As of November 30, 2016, the Company had no outstanding borrowings under the Loan Agreement. At November 30, 2016, the Company had open standby letters of credit totaling \$0.4 under the Loan Agreement. The Loan Agreement contains certain covenants, including interest coverage and leverage ratio tests and certain limitations on the amount of dividends and other distributions, and at November 30, 2016, the Company was in compliance with these covenants.

Lines of Credit

As of November 30, 2016, the Company had domestic unsecured money market bid rate credit lines totaling \$25.0. There were no outstanding borrowings under these credit lines at November 30, 2016, May 31, 2016 or November 30, 2015. At November 30, 2016, the Company had open standby letters of credit totaling \$4.9 under the domestic unsecured money market bid rate credit lines. As of November 30, 2016, availability under these unsecured money market bid rate credit lines totaled \$20.1. All loans made under these credit lines are at the sole discretion of the lender and at an interest rate and term agreed to at the time each loan is made, but not to exceed 365 days. These credit lines may be renewed, if requested by the Company, at the option of the lender.

SCHOLASTIC CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS – UNAUDITED

(Dollar amounts in millions, except per share data)

As of November 30, 2016, the Company had equivalent local currency credit lines totaling \$27.9. Outstanding borrowings under these lines of credit totaled \$7.3, \$6.3 and \$12.0 at November 30, 2016, May 31, 2016 and November 30, 2015, respectively. As of November 30, 2016, the equivalent amounts available totaled \$20.6, underwritten by banks primarily in the United States, Canada and the United Kingdom. These credit lines are typically available for overdraft borrowings or loans up to 364 days and may be renewed, if requested by the Company, at the sole option of the lender.

5. COMMITMENTS AND CONTINGENCIES

Various claims and lawsuits arising in the normal course of business are pending against the Company. The Company accrues a liability for such matters when it is probable that a liability has occurred and the amount of such liability can be reasonably estimated. When only a range can be estimated, the most probable amount in the range is accrued unless no amount within the range is a better estimate than any other amount, in which case the minimum amount in the range is accrued. Legal costs associated with litigation loss contingencies are expensed in the period in which they are incurred. The Company does not expect, in the case of those various claims and lawsuits arising in the normal course of business where a loss is considered probable or reasonably possible, that the reasonably possible losses from such claims and lawsuits (either individually or in the aggregate) would have a material adverse effect on the Company's consolidated financial position or results of operations. See Note 14, "Income Taxes and Other Taxes," for further discussion.

6. EARNINGS (LOSS) PER SHARE

The following table summarizes the reconciliation of the numerators and denominators for the basic and diluted earnings (loss) per share computation for the three and six month periods ended November 30, 2016 and November 30, 2015, respectively:

| | Three months ended | | Six months ended | |
|--|--------------------|----------|------------------|----------|
| | November | | November 30, | |
| | 2016 | 2015 | 2016 | 2015 |
| Earnings (loss) from continuing operations attributable to Class A and Common Shares | \$67.8 | \$65.1 | \$28.3 | \$16.3 |
| Earnings (loss) from discontinued operations attributable to Class A and Common Shares, net of tax | 0.0 | (0.3) | (0.1) | (0.8) |
| Net income (loss) attributable to Class A and Common Shares | \$67.8 | \$64.8 | \$28.2 | \$15.5 |
| Weighted average Shares of Class A Stock and Common Stock outstanding for basic earnings (loss) per share (in millions) | 34.5 | 34.2 | 34.5 | 33.8 |
| Dilutive effect of Class A Stock and Common Stock potentially issuable pursuant to stock-based compensation plans (in millions) | 0.7 | 0.9 | 0.7 | 1.0 |
| Adjusted weighted average Shares of Class A Stock and Common Stock outstanding for diluted earnings (loss) per share (in millions) | 35.2 | 35.1 | 35.2 | 34.8 |
| Earnings (loss) per share of Class A Stock and Common Stock: | | | | |
| Basic earnings (loss) per share: | | | | |
| Earnings (loss) from continuing operations | \$1.96 | \$1.90 | \$0.82 | \$0.48 |
| Earnings (loss) from discontinued operations, net of tax | \$0.00 | \$(0.01) | \$(0.00) | \$(0.02) |

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| | | | | |
|--|--------|----------|----------|----------|
| Net income (loss) | \$1.96 | \$1.89 | \$0.82 | \$0.46 |
| Diluted earnings (loss) per share: | | | | |
| Earnings (loss) from continuing operations | \$1.92 | \$1.85 | \$0.81 | \$0.47 |
| Earnings (loss) from discontinued operations, net of tax | \$0.00 | \$(0.01) | \$(0.01) | \$(0.03) |
| Net income (loss) | \$1.92 | \$1.84 | \$0.80 | \$0.44 |

SCHOLASTIC CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS – UNAUDITED

(Dollar amounts in millions, except per share data)

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

| | November 30, 2016 | November 30, 2015 |
|--|-------------------|-------------------|
| Options outstanding pursuant to stock-based compensation plans (in millions) | 3.3 | 3.4 |

Earnings from continuing operations exclude earnings of \$0.1 and \$0.1 for the three and six months ended November 30, 2016, respectively, and \$0.1 and less than \$0.1 for the three and six months ended November 30, 2015, respectively, attributable to participating Restricted Stock Units (“RSUs”).

In a period in which the Company reports a discontinued operation, Earnings (loss) from continuing operations is used as the “control number” in determining whether potentially dilutive common shares are dilutive or anti-dilutive. Potentially dilutive shares outstanding pursuant to compensation plans that were not included in the diluted earnings per share calculation because they were anti-dilutive were 0.7 million as of November 30, 2016.

A portion of the Company’s Restricted Stock Units (“RSUs”) which are granted to employees participate in earnings through cumulative non-forfeitable dividends payable to the employees upon vesting of the RSUs. Accordingly, the Company measures earnings per share based upon the lower of the Two-class method or the Treasury Stock method. Since, under the Two-class method, losses are not allocated to the participating securities, in periods of loss the Two-class method is not applicable.

As of November 30, 2016, \$39.5 remained available for future purchases of common shares under the current repurchase authorization of the Board of Directors (the “Board”). See Note 11, “Treasury Stock,” for a more complete description of the Company’s share buy-back program.

7. GOODWILL AND OTHER INTANGIBLES

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

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

| | Six months ended November 30, 2016 | Twelve months ended May 31, 2016 | Six months ended November 30, 2015 |
|------------------------------|--|--|--|
| Beginning balance | \$ 116.2 | \$ 116.3 | \$ 116.3 |
| Foreign currency translation | (0.0) | (0.1) | (0.1) |
| Total goodwill | \$ 116.2 | \$ 116.2 | \$ 116.2 |

Accumulated goodwill impairment losses totaled \$39.6 as of November 30, 2016, May 31, 2016 and November 30, 2015. There were no goodwill impairment losses during the six months ended November 30, 2016 and 2015.

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The following table summarizes the activity in other intangibles included in “Other assets and deferred charges” on the Company’s condensed consolidated balance sheets for the periods indicated:

| | Six months ended November 30, 2016 | Twelve months ended May 31, 2016 | Six months ended November 30, 2015 |
|--|--|---|--|
| Beginning balance other intangibles subject to amortization | \$ 4.7 | \$ 4.7 | \$ 4.7 |
| Additions | 0.2 | 2.4 | 2.4 |
| Amortization expense | (1.2) | (2.2) | (1.1) |
| Foreign currency translation | (0.2) | (0.2) | — |
| Total other intangibles subject to amortization, net of accumulated amortization of \$20.7,\$19.5 and \$18.4, respectively | \$ 3.5 | \$ 4.7 | \$ 6.0 |
| Total other intangibles not subject to amortization | \$ 2.1 | \$ 2.1 | \$ 2.1 |
| Total other intangibles | \$ 5.6 | \$ 6.8 | \$ 8.1 |

SCHOLASTIC CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS – UNAUDITED

(Dollar amounts in millions, except per share data)

In the first quarter of fiscal 2017, the Company purchased a U.S. based book fair business resulting in the recognition of \$0.2 of amortizable intangible assets. In fiscal 2016, the Company purchased a U.S. based book fair business and a UK based book fair business resulting in the Company recognizing \$0.5 and \$1.9 of amortizable intangible assets, respectively.

Amortization expense for total other intangibles was \$1.2 and \$1.1 for the six months ended November 30, 2016 and 2015, respectively. Intangible assets with definite lives consist principally of customer lists, trademark and tradename rights and other agreements. Intangible assets with definite lives are amortized over their estimated useful lives. The weighted-average remaining useful lives of all amortizable intangible assets is approximately 3.6 years.

8. INVESTMENTS

Included in “Other assets and deferred charges” on the Company’s condensed consolidated balance sheets were investments of \$27.4, \$26.2 and \$27.2 at November 30, 2016, May 31, 2016 and November 30, 2015, respectively.

The Company's 48.5% equity interest in Make Believe Ideas Limited (MBI), a UK-based children's book publishing company, is accounted for using the equity method of accounting. Under the purchase agreement, and subject to its provisions, the Company will purchase the remaining outstanding shares in MBI following the completion of MBI's accounts for the calendar year 2018. The remaining controlling interest is held by a single third party and therefore the Company accounted for the investment using the equity method of accounting. The net carrying value of this investment was \$8.1, \$8.0 and \$8.2 at November 30, 2016, May 31, 2016 and November 30, 2015, respectively.

The Company’s 26.2% non-controlling interest in another children’s book publishing business located in the UK is accounted for using the equity method of accounting. The net carrying value of this investment was \$19.3, \$18.1 and \$19.0 at November 30, 2016, May 31, 2016 and November 30, 2015, respectively.

The Company sold a cost method investment in China and received proceeds of \$3.3 resulting in a pretax gain of \$2.2 in the three and six months ended November 30, 2015.

The Company has other equity and cost method investments that had a net carrying value of \$0.0, \$0.1 and \$0.0 at November 30, 2016, May 31, 2016 and November 30, 2015, respectively.

Income from equity investments reported in "Selling, general and administrative expenses" in the condensed consolidated statements of operations totaled \$4.9 and \$2.4 for the six months ended November 30, 2016 and November 30, 2015, respectively.

9. EMPLOYEE BENEFIT PLANS

The following table sets forth components of the net periodic cost (credit) for the periods indicated under the Company’s cash balance retirement plan for its United States employees meeting certain eligibility requirements (the “U.S. Pension Plan”) and the defined benefit pension plan of Scholastic Ltd., an indirect subsidiary of Scholastic Corporation located in the United Kingdom (the “UK Pension Plan” and, together with the U.S. Pension Plan, the “Pension Plans”). Also included are the post-retirement benefits, consisting of certain healthcare and life insurance

benefits provided by the Company to its eligible retired United States-based employees (the “Post-Retirement Benefits”). The Pension Plans and Post-Retirement Benefits include participants associated with both continuing operations and discontinued operations.

SCHOLASTIC CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS – UNAUDITED

(Dollar amounts in millions, except per share data)

| | Pension Plan | | Post-Retirement Benefits | |
|---|--------------------|--------|--------------------------|--------|
| | Three months ended | | Three months ended | |
| | November 30, | | November 30, | |
| | 2016 | 2015 | 2016 | 2015 |
| Components of net periodic cost (credit): | | | | |
| Service cost | \$— | \$— | \$ 0.0 | \$ 0.0 |
| Interest cost | 1.1 | 1.6 | 0.3 | 0.4 |
| Expected return on assets | (1.8) | (2.0) | — | — |
| Net amortization of prior service credit | — | — | — | (0.0) |
| Amortization of (gain) loss | 0.5 | 0.4 | 0.6 | 0.8 |
| Net periodic cost (credit) | \$(0.2) | \$0.0 | \$ 0.9 | \$ 1.2 |
| | Pension Plans | | Post-Retirement Benefits | |
| | Six months ended | | Six months ended | |
| | November 30, | | November 30, | |
| | 2016 | 2015 | 2016 | 2015 |
| Components of net periodic cost (credit): | | | | |
| Service cost | \$— | \$— | \$ 0.0 | \$ 0.0 |
| Interest cost | 2.2 | 3.1 | 0.6 | 0.7 |
| Expected return on assets | (3.6) | (3.9) | — | — |
| Net amortization of prior service credit | — | — | — | (0.0) |
| Amortization of (gain) loss | 0.9 | 0.8 | 1.2 | 1.4 |
| Net periodic cost (credit) | \$(0.5) | \$0.0 | \$ 1.8 | \$ 2.1 |

The Company's funding practice with respect to the Pension Plans is to contribute on an annual basis at least the minimum amounts required by applicable laws. For the six months ended November 30, 2016, the Company made no contribution to the U.S. Pension Plan and contributed \$0.5 to the UK Pension Plan. The Company expects, based on actuarial calculations, to contribute cash of approximately \$1.1 to the Pension Plans for the fiscal year ending May 31, 2017.

In the current fiscal year, the U.S. Pension Plan's funding status is sufficient to allow participants to receive "lump sum" payments at the participant's request. Under certain circumstances, such lump sum payments must be accounted for as a settlement of the related pension obligation when paid. If these requests exceed \$3.2 in the current fiscal year, the Company will recognize a settlement charge related to net unrecognized pension benefit costs in respect of the lump sum benefit payments made. For the six months ended November 30, 2016, the Company made \$1.5 of lump sum benefit payments to vested plan participants.

On July 20, 2016, the Board approved the termination of the U.S. Pension Plan, in which all benefit accruals were previously frozen as of June 1, 2009. Based on the Plan's current funded status and the frozen benefit, it was

determined that the on-going costs of maintaining the Plan were growing at a greater rate than the benefit delivered to the Company's employees and former employees. An application was filed with the Internal Revenue Service (the "IRS") for an advance determination as to whether the Plan meets the qualification requirements of Internal Revenue Code section 401(a). Upon approval of the IRS and the Pension Benefit Guaranty Corporation, the assets of the Plan will be distributed either via a lump sum payment to each eligible active and deferred vested participant or to another qualified retirement plan established on the participant's behalf, or via an annuity contract underwritten by a highly rated insurance company. All participants currently receiving a periodic benefit will continue to receive their benefit payments without disruption. The Company expects that the process for terminating the pension plan, which involves several regulatory steps and approvals, will take approximately 15 to 21 months.

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

10. STOCK-BASED COMPENSATION

The following table summarizes stock-based compensation expense included in Selling, general and administrative expenses for the periods indicated:

| | Three months ended November 30, 2016 | | Six months ended November 30, 2015 | |
|--|---|-------|---|-------|
| Stock option expense | \$4.3 | \$3.8 | \$5.1 | \$4.4 |
| Restricted stock unit expense | 0.7 | 0.7 | 1.4 | 1.4 |
| Management stock purchase plan | 0.4 | 0.6 | 0.4 | 0.6 |
| Employee stock purchase plan | 0.1 | 0.0 | 0.2 | 0.1 |
| Total stock-based compensation expense | \$5.5 | \$5.1 | \$7.1 | \$6.5 |

The following table sets forth Common Stock issued pursuant to stock-based compensation plans as of the dates indicated:

| | Three months ended November 30, 2016 | | Six months ended November 30, 2015 | |
|--|---|-----|--|-----|
| Common Stock issued pursuant to stock-based compensation plans (in millions) | 0.1 | 0.2 | 0.3 | 1.2 |

11. TREASURY STOCK

The Board has authorized the Company to repurchase Common Stock, from time to time as conditions allow, on the open market or through negotiated private transactions.

The table below represents the current Board authorization:

| | Amount |
|---|---------|
| July 2015 | 50.0 |
| Less repurchases made under the authorization as of November 30, 2016 | (10.5) |
| Remaining Board authorization at November 30, 2016 | \$ 39.5 |

On July 22, 2015, the Board authorized \$50.0 for the share buy-back program, to be funded with available cash. Repurchases of Common Stock made were \$6.0 during the three and six months ended November 30, 2016, respectively. The Company's repurchase program may be suspended at any time without prior notice.

12. ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)

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The following tables summarize the activity in Accumulated other comprehensive income (loss), net of tax, by component for the periods indicated:

| | Six months ended November 30, 2016 | | |
|---|---|--------------------------------|----------|
| | Foreign currency translation adjustments | Retirement benefit plans | Total |
| Beginning balance | \$(40.0) | \$ (46.7) | \$(86.7) |
| Other comprehensive income (loss) before reclassifications | (7.0) | — | \$(7.0) |
| Less: amount reclassified from Accumulated other comprehensive income (loss) | — | 1.4 | 1.4 |
| Other comprehensive income (loss) | (7.0) | 1.4 | (5.6) |
| Ending balance | \$(47.0) | \$ (45.3) | \$(92.3) |

SCHOLASTIC CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS – UNAUDITED

(Dollar amounts in millions, except per share data)

| | Six months ended November 30, 2015 | | |
|---|---|--------------------------------|----------|
| | Foreign currency translation adjustments | Retirement benefit plans | Total |
| Beginning balance | \$(31.9) | \$ (45.1) | \$(77.0) |
| Other comprehensive income (loss) before reclassifications | (8.2) | — | \$(8.2) |
| Less: amount reclassified from Accumulated other comprehensive income (loss) | — | 1.5 | 1.5 |
| Other comprehensive income (loss) | (8.2) | 1.5 | (6.7) |
| Ending balance | \$(40.1) | \$ (43.6) | \$(83.7) |

The following table presents the impact on earnings of reclassifications out of Accumulated other comprehensive income (loss) for the periods indicated:

| | Three months ended November 30, 2016 | | Six months ended November 30, 2015 | | Affected line items in the condensed consolidated statements of operations |
|--|---|---------|--|---------|---|
| Employee benefit plans: | | | | | |
| Amortization of prior service cost (credit) | \$— | \$(0.0) | \$— | \$(0.0) | Selling, general and administrative |
| Amortization of unrecognized gain (loss) included in net periodic cost (credit) | 1.1 | 1.2 | 2.1 | 2.2 | Selling, general and administrative |
| Less: Tax effect | (0.4) | (0.4) | (0.7) | (0.7) | Income tax expense (benefit) |
| Total expense, net of tax | \$0.7 | \$0.8 | \$1.4 | \$1.5 | |

13. FAIR VALUE MEASUREMENTS

The Company determines the appropriate level in the fair value hierarchy for each fair value measurement of assets and liabilities carried at fair value on a recurring basis in the Company's financial statements. The fair value hierarchy prioritizes the inputs, which refer to assumptions that market participants would use in pricing an asset or liability, based upon the highest and best use, into three levels as follows:

Level 1 Unadjusted quoted prices in active markets for identical assets or liabilities at the measurement date.

Level 2 Observable inputs other than unadjusted quoted prices in active markets for identical assets or liabilities such as

Quoted prices for similar assets or liabilities in active markets

Quoted prices for identical or similar assets or liabilities in inactive markets

Inputs other than quoted prices that are observable for the asset or liability

Inputs that are derived principally from or corroborated by observable market data by correlation or other means

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

The Company's financial assets and liabilities measured at fair value consisted of cash and cash equivalents, debt and foreign currency forward contracts. Cash and cash equivalents are comprised of bank deposits and short-term investments, such as money market funds, the fair value of which is based on quoted market prices, a Level 1 fair value measure. The Company employs Level 2 fair value measurements for the disclosure of the fair value of its various lines of credit. The fair value of the Company's debt approximates the carrying value for all periods presented. The fair values of foreign currency forward contracts, used by the Company to manage the impact of foreign exchange rate changes to the financial statements, are based on quotations from financial institutions, a Level 2 fair value measure. See Note 15, "Derivatives and Hedging," for a more complete description of fair value measurements employed.

SCHOLASTIC CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS – UNAUDITED

(Dollar amounts in millions, except per share data)

Non-financial assets and liabilities for which the Company employs fair value measures on a non-recurring basis include:

- Long-lived assets
- Investments
- Assets acquired in a business combination
- Goodwill and indefinite-lived intangible assets
- Long-lived assets held for sale

Level 2 and level 3 inputs are employed by the Company in the fair value measurement of these assets and liabilities. For the fair value measurements employed by the Company for goodwill see Note 7, "Goodwill and Other Intangibles." For the fair value measurements employed by the Company for certain property, plant and equipment, production assets, investments and prepublication assets, the Company assesses future expected cash flows attributable to these assets.

14. INCOME TAXES AND OTHER TAXES

Income Taxes

In calculating the provision for income taxes on an interim basis, the Company uses an estimate of the annual effective tax rate based upon the facts and circumstances known and applies that rate to its year-to-date earnings or losses. The Company's effective tax rate is based on expected income and statutory tax rates and takes into consideration permanent differences between financial statement and tax return income applicable to the Company in the various jurisdictions in which the Company operates. The effect of discrete items, such as changes in estimates, changes in enacted tax laws or rates or tax status, and unusual or infrequently occurring events, is recognized in the interim period in which the discrete item occurs. The accounting estimates used to compute the provision for income taxes may change as new events occur, additional information is obtained or as the result of new judicial interpretations or regulatory or tax law changes.

The Company's annual effective tax rate, exclusive of discrete items, unbenefitted foreign losses, and release of associated valuation allowances, used to calculate the interim tax provision is expected to be approximately 38.9%. The interim effective tax rate, inclusive of discrete items, was 38.8% and 40.3% for the three and six month periods ended November 30, 2016, respectively.

The Company, including its domestic subsidiaries, files a consolidated U.S. income tax return, and also files tax returns in various states and other local jurisdictions. Also, certain subsidiaries of the Company file income tax returns in foreign jurisdictions. The Company is routinely audited by various tax authorities.

The Company is currently under audit by the IRS for the fiscal year ended May 31, 2014. New York City concluded the examination for fiscal years ended May 31, 2008, 2009 and 2010 during the second fiscal quarter ended November 30, 2016. If the tax examination currently under audit is concluded within the next six months, the Company will make any necessary adjustments to its unrecognized tax benefits.

Non-income Taxes

The Company is subject to tax examinations for sales-based taxes. A number of these examinations are ongoing and, in certain cases, have resulted in assessments from taxing authorities. The Company assesses sales tax contingencies for each jurisdiction in which it operates, considering all relevant facts including statutes, regulations, case law and experience. When a sales tax liability with respect to a particular jurisdiction is probable and can be reliably estimated, the Company has made accruals for these matters which are reflected in the Company's condensed consolidated financial statements. Future developments relating to the foregoing could result in adjustments being made to these accruals.

The State of Wisconsin has assessed Scholastic Book Fairs, Inc. ("SBF"), a wholly owned subsidiary of the Company, \$5.4, exclusive of penalties and interest, for sales tax in fiscal years 2004 through 2014. Based upon the facts and circumstances and the relevant laws in the State of Wisconsin, the Company does not believe these assessments are merited and has elected to litigate these assessments. While the Company believes it will prevail in this litigation and accordingly has not recognized a liability for these assessments, the results of

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS – UNAUDITED

(Dollar amounts in millions, except per share data)

litigation cannot be assured and it is reasonably possible that SBF could be found liable for all or a portion of the amounts assessed.

15. DERIVATIVES AND HEDGING

The Company enters into foreign currency derivative contracts to economically hedge the exposure to foreign currency fluctuations associated with the forecasted purchase of inventory and the foreign exchange risk associated with certain receivables denominated in foreign currencies. These derivative contracts are economic hedges and are not designated as cash flow hedges. The Company marks-to-market these instruments and records the changes in the fair value of these items in Selling, general and administrative expenses in the condensed consolidated statements of operations, and it recognizes the unrealized gain or loss in other current assets or current liabilities. The notional values of the contracts as of November 30, 2016 and November 30, 2015 were \$30.5 and \$32.3, respectively. Unrealized losses of less than \$0.1 and unrealized gains of \$0.9 were recognized at November 30, 2016 and November 30, 2015, respectively, for the six month periods then ended.

16. OTHER ACCRUED EXPENSES

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

| | November 30, May 31, November 30, | | |
|---|-----------------------------------|----------|----------|
| | 2016 | 2016 | 2015 |
| Accrued payroll, payroll taxes and benefits | \$ 49.3 | \$ 44.9 | \$ 39.5 |
| Accrued bonus and commissions | 19.3 | 28.2 | 16.8 |
| Accrued other taxes | 33.9 | 30.4 | 31.4 |
| Accrued advertising and promotions | 37.3 | 35.7 | 39.1 |
| Accrued insurance | 7.8 | 7.7 | 7.5 |
| Other accrued expenses | 30.7 | 29.0 | 28.6 |
| Total accrued expenses | \$ 178.3 | \$ 175.9 | \$ 162.9 |

17. SUBSEQUENT EVENTS

The Company's Board of Directors declared a quarterly cash dividend of \$0.15 per share on the Company's Class A and Common Stock for the third quarter of fiscal 2017. The dividend is payable on March 15, 2017 to shareholders of record as of the close of business on January 31, 2017.

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

Overview and Outlook

Revenues from continuing operations in the quarter ended November 30, 2016 were \$623.1 million, compared to \$601.8 million in the prior fiscal year quarter, an increase of \$21.3 million. The Company reported net income per diluted share of \$1.92 in the second quarter of fiscal 2017, compared to net income per diluted share of \$1.84 in the prior fiscal year quarter, which reflects both continuing and discontinued operations.

Second fiscal quarter results were driven by revenue growth in the Company's trade channels in the U.S. and Canada, primarily on the strength of new Harry Potter-related publishing. Strong sales gains in the Company's international major market operations, particularly in trade, clubs and fairs, led to a 43% increase in international profits in the current fiscal quarter.

The Company's trade publishing had exceptionally good performance in the second fiscal quarter, with a number of best-selling frontlist titles and new Harry Potter releases, including the original screenplay book for *Fantastic Beasts and Where to Find Them*TM and *Harry Potter and the Chamber of Secrets: The Illustrated Edition*, as well as stronger children's book results in the international major markets. In the U.S., the Company's plan for level revenue and higher profits in book fairs is on track for the full fiscal year. In book clubs, where the Company reduced catalog mailings in the current fiscal quarter, revenues were lower than expected, although the Company was successful in trimming costs to protect profitability. The Company is now expanding mailings of higher performing catalogs and anticipates improved club revenue in the second half of the fiscal year. The Company is also well positioned for continued share gains in the education business, as the Company meets the growing demand for children's literature as a core instructional resource, coupled with professional services and research-based instructional strategies that resonate in today's schools.

Results of Operations – Consolidated

Revenues for the quarter ended November 30, 2016 increased to \$623.1 million, compared to \$601.8 million in the prior fiscal year quarter. The Children's Book Publishing and Distribution segment revenues increased \$18.8 million, primarily driven on the strength of Harry Potter publishing, frontlist and backlist, including the new screenplay of the *Fantastic Beasts and Where to Find Them* film released in November 2016. The Education segment revenues decreased \$1.3 million, primarily driven by lower consumer magazines sales of custom publishing programs, partially offset by higher sales from classroom books and literacy initiatives. In local currencies, the International segment revenues increased \$6.6 million, primarily driven by the strength of new Harry Potter publishing in Canada and certain export markets, as well as sales gains in trade, clubs and fairs in the Company's major international markets. The Company's increased international revenues were partially offset by unfavorable foreign exchange translation of \$2.8 million.

Revenues for the six month period ended November 30, 2016 increased to \$905.8 million, compared to \$793.0 million in the prior fiscal year period. The Children's Book Publishing and Distribution segment revenues increased \$88.9 million, primarily driven on the strength of original Harry Potter publishing, frontlist and backlist, including *Harry Potter and the Cursed Child, Parts One and Two*, as well as the new screenplay of the *Fantastic Beasts and Where to Find Them* film released in November 2016. The Education segment revenues increased \$3.5 million, primarily related to the Company's classroom books and literacy initiatives and classroom magazines. In local currencies, the International segment revenues increased \$25.2 million, primarily driven by the strength of new Harry Potter publishing in Canada and certain export markets, as well as sales gains in trade, clubs and fairs in the Company's major international markets. The Company's increased international revenues were partially offset by unfavorable foreign exchange translation of \$4.8 million.

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Components of Cost of goods sold for the three and six months ended November 30, 2016 and November 30, 2015 are as follows:

| (\$ amounts in millions) | Three months ended | | | Six months ended | | |
|---|--------------------|-------------------|-------------------|-------------------|-------------------|-------------------|
| | November 30, 2016 | November 30, 2015 | November 30, 2015 | November 30, 2016 | November 30, 2015 | November 30, 2015 |
| | \$ | % of Revenue | \$ | % of Revenue | \$ | % of Revenue |
| Product, service and production costs | \$151.1 | 24.2 % | \$154.6 | 25.7 % | \$222.3 | 24.5 % |
| Royalty costs | 46.6 | 7.5 % | 29.9 | 5.0 % | 97.3 | 10.7 % |
| Prepublication and production amortization | 5.9 | 0.9 % | 6.9 | 1.1 % | 11.6 | 1.3 % |
| Postage, freight, shipping, fulfillment and other | 67.7 | 10.9 % | 65.7 | 10.9 % | 109.8 | 12.2 % |
| Total | \$271.3 | 43.5 % | \$257.1 | 42.7 % | \$441.0 | 48.7 % |

Cost of goods sold as a percentage of revenue for the quarter ended November 30, 2016 increased to 43.5%, compared to 42.7% in the prior fiscal year quarter. Higher cost of goods sold as a percentage of revenue was driven by royalty costs associated with higher sales of Harry Potter titles, partially offset by the favorable impact higher revenues had on fixed costs coupled with favorable product mix.

Cost of goods sold as a percentage of revenue for the six months ended November 30, 2016 increased to 48.7%, compared to 46.9% in the prior fiscal year period. Higher cost of goods sold as a percentage of revenue was driven by royalty costs associated with higher sales of Harry Potter titles, partially offset by the favorable impact higher revenues had on fixed costs coupled with favorable product mix.

Selling, general and administrative expenses in the quarter ended November 30, 2016 increased to \$230.8 million, compared to \$229.0 million in the prior fiscal year quarter. The increase in expense was driven by the impact of the wage improvement program for employees in the U.S. distribution centers, higher spending on strategic technology platforms and solutions, higher facilities-related expenses and higher severance expense of \$2.4 million related to cost saving initiatives. This was partially offset by lower book club channel promotion and catalog costs and a reduction of \$0.5 million due to a warehouse optimization project in the Company's book fairs operations in the prior fiscal year quarter.

Selling, general and administrative expenses in the six months ended November 30, 2016 increased to \$397.4 million, compared to \$374.7 million in the prior fiscal year period. The increase in expense was primarily driven by the impact of the wage improvement program for employees in the U.S. distribution centers, higher employee-related expenses, higher severance expense of \$1.0 million related to cost reduction programs and higher spending on strategic technology platforms and solutions. This was partially offset by lower book club channel promotion and catalog costs and a reduction of \$1.5 million due to a warehouse optimization project in the Company's book fairs operations in the prior fiscal year period.

Depreciation and amortization expenses in the quarter ended November 30, 2016 decreased to \$9.6 million, compared to \$10.6 million in the prior fiscal year quarter. The decrease was primarily attributable to the prior fiscal year impairment of certain outdated technology platforms.

Depreciation and amortization expenses in the six months ended November 30, 2016 decreased to \$19.1 million, compared to \$21.1 million in the prior fiscal year period. The decrease was primarily attributable to the prior fiscal year impairment of certain outdated technology platforms.

For the three month period ended November 30, 2016, net interest expense decreased to \$0.4 million, from \$0.5 million in the prior fiscal year quarter. For the six month period ended November 30, 2016, net interest expense increased to \$0.7 million, from \$0.6 million in the prior fiscal year period. The relatively flat net interest expense in both periods is driven by the absence of long-term debt. Net interest expense is driven by changes in short-term borrowings on available lines of credit.

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The Company's effective tax rate for the second quarter of fiscal 2017 was 38.8%, compared to 39.0% in the prior fiscal year quarter. The Company's effective tax rate for the six month period ended November 30, 2016 was 40.3%, compared to 40.1% in the prior fiscal year period. For the full year, the Company expects an effective tax rate, inclusive of discrete items, of approximately 40.8%.

Earnings from continuing operations for the quarter ended November 30, 2016 improved by \$2.7 million to \$67.9 million, compared to earnings of \$65.2 million in the prior fiscal year quarter. Earnings from continuing operations per basic and diluted share of Class A Stock and Common Stock were \$1.96 and \$1.92, respectively, in the quarter ended November 30, 2016, compared to \$1.90 and \$1.85, respectively, in the prior fiscal year quarter.

Earnings from continuing operations for the six months ended November 30, 2016 improved by \$12.1 million to \$28.4 million, compared to earnings of \$16.3 million in the prior fiscal year period. Earnings from continuing operations per basic and diluted share of Class A Stock and Common Stock were \$0.82 and \$0.81, respectively, in the six months ended November 30, 2016, compared to \$0.48 and \$0.47, respectively, in the prior fiscal year period. Income from discontinued operations, net of tax, for the quarter ended November 30, 2016 was less than one hundred thousand, compared to a loss from discontinued operations, net of tax, of \$0.3 million in the prior fiscal year quarter. Loss from discontinued operations, net of tax, for the six months ended November 30, 2016 was \$0.1 million, compared to a loss from discontinued operations, net of tax, of \$0.8 million in the prior fiscal year period. The Company did not discontinue any operations in the first six months of fiscal 2017.

Net income for the quarter ended November 30, 2016 improved by \$3.0 million to \$67.9 million, compared to \$64.9 million in the prior fiscal year quarter. Net income per basic and diluted share of Class A Stock and Common Stock was \$1.96 and \$1.92, respectively, in the quarter ended November 30, 2016, compared to \$1.89 and \$1.84, respectively, in the prior fiscal year quarter.

Net income for the six months ended November 30, 2016 improved by \$12.8 million to \$28.3 million, compared to \$15.5 million in the prior fiscal year period. Net income per basic and diluted share of Class A Stock and Common Stock was \$0.82 and \$0.80, respectively, in the six months ended November 30, 2016, compared to \$0.46 and \$0.44, respectively, in the prior fiscal year period.

Results of Continuing Operations

Children's Book Publishing and Distribution

| (\$ amounts in millions) | Three months ended November 30, | | | | Six months ended November 30, | | | |
|---------------------------|---------------------------------|---------|-----------|----------|-------------------------------|---------|-----------|----------|
| | 2016 | 2015 | \$ change | % change | 2016 | 2015 | \$ change | % change |
| Revenues | \$432.5 | \$413.7 | \$18.8 | 4.5 % | \$570.3 | \$481.4 | \$88.9 | 18.5 % |
| Cost of goods sold | 174.9 | 160.6 | 14.3 | 8.9 % | 262.0 | 202.7 | 59.3 | 29.3 % |
| Other operating expenses* | 136.5 | 142.7 | (6.2) | -4.3 % | 223.4 | 224.3 | (0.9) | -0.4 % |
| Operating income (loss) | \$121.1 | \$110.4 | \$10.7 | | \$84.9 | \$54.4 | \$30.5 | |
| Operating margin | 28.0 % | 26.7 % | | | 14.9 % | 11.3 % | | |

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

Revenues for the quarter ended November 30, 2016 increased to \$432.5 million, compared to \$413.7 million in the prior fiscal year quarter. Trade channel revenues increased \$36.8 million, primarily driven on the strength of Harry

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Potter publishing, frontlist and backlist, including the new screenplay of the Fantastic Beasts and Where to Find Them film released in November 2016. Sales were also driven by popular new releases including Dog Man by Dav Pilkey, Ghosts by Raina Telgemeier, and Five Nights at Freddy's: The Silver Eyes, by Scott Cawthorn. Book club channel revenues declined \$13.2 million due to lower sponsor levels as well as lower revenue per event and

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per sponsor. Book fair channel revenues declined \$4.8 million on approximately 9% lower number of fairs held in the quarter due to a planned strategy to reduce the number of fairs, partially offset by higher revenue per fair of approximately 7%.

Revenues for the six months ended November 30, 2016 increased to \$570.3 million, compared to \$481.4 million in the prior fiscal year period. Trade channel revenues increased \$106.4 million primarily driven on the strength of Harry Potter publishing, frontlist and backlist, including Harry Potter and the Cursed Child, Parts One and Two, as well as the screenplay of the Fantastic Beasts and Where to Find Them film released in November 2016. In addition, continued sales of bestselling series, including Wings of Fire, Amulet and Star Wars: Jedi Academy, and the success of popular new releases including Dog Man by Dav Pilkey, Ghosts by Raina Telgemeier, and Five Nights at Freddy's: The Silver Eyes by Scott Cawthorn, drove higher revenues. Revenues from the book clubs and book fairs channels decreased \$12.4 million and \$5.1 million, respectively, and were consistent with the quarterly results for the second fiscal year quarter, as neither channel experiences significant revenues in the first quarter of a fiscal year.

Cost of goods sold for the quarter ended November 30, 2016 was \$174.9 million, or 40% of revenues, compared to \$160.6 million, or 39% of revenues, in the prior fiscal year quarter. The increase was primarily driven by royalty costs in the trade channel associated with higher sales of Harry Potter titles. This increase was partially offset by the favorable impact of higher revenues in the trade channel on fixed costs and favorable trade channel product mix.

Cost of goods sold for the six months ended November 30, 2016 was \$262.0 million, or 46% of revenues, compared to \$202.7 million, or 42% of revenues, in the prior fiscal year period. The increase was primarily driven by royalty costs in the trade channel associated with higher sales of Harry Potter titles. This increase was partially offset by the favorable impact of higher revenues in the trade channel on fixed costs and favorable trade channel product mix.

Other operating expenses of \$136.5 million for the quarter ended November 30, 2016 decreased compared to \$142.7 million in the prior fiscal year quarter. The decrease was primarily due to a reduction in book club channel promotion and catalog costs and a reduction of \$0.5 million in expenses due to a warehouse optimization project in the Company's book fairs operations in the prior fiscal year quarter, partially offset by the impact of the wage improvement program for employees in the U.S. distribution centers.

Other operating expenses of \$223.4 million for the six months ended November 30, 2016 decreased compared to \$224.3 million in the prior fiscal year period. The decrease was primarily due to a reduction in book club channel promotion and catalog costs and a reduction of \$1.5 million in expenses due to a warehouse optimization project in the Company's book fairs operations in the prior fiscal year period, partially offset by higher promotional spending in the trade channel due to new Harry Potter titles and the impact of the wage improvement program for employees in the U.S. distribution centers.

Segment operating income for the quarter ended November 30, 2016 improved to \$121.1 million, compared to \$110.4 million in the prior fiscal year quarter. This was primarily driven by the sales of Harry Potter titles, partially offset by higher cost of goods sold.

Segment operating income for the six months ended November 30, 2016 improved to \$84.9 million, compared to \$54.4 million in the prior fiscal year period. This was primarily driven by the sales of Harry Potter titles, partially offset by higher cost of goods sold.

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Education

| (\$ amounts in millions) | Three months ended November 30, | | | | Six months ended November 30, | | | |
|---------------------------|---------------------------------|--------|-----------|----------|-------------------------------|---------|-----------|----------|
| | 2016 | 2015 | \$ change | % change | 2016 | 2015 | \$ change | % change |
| Revenues | \$71.1 | \$72.4 | \$(1.3) | -1.8 % | \$126.3 | \$122.8 | \$3.5 | 2.9 % |
| Cost of goods sold | 21.9 | 23.3 | (1.4) | -6.0 % | 43.8 | 45.0 | (1.2) | -2.7 % |
| Other operating expenses* | 40.5 | 38.7 | 1.8 | 4.7 % | 78.2 | 71.7 | 6.5 | 9.1 % |
| Operating income (loss) | \$8.7 | \$10.4 | \$(1.7) | | \$4.3 | \$6.1 | \$(1.8) | |
| Operating margin | 12.2% | 14.4% | | | 3.4 % | 5.0 % | | |

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

Revenues for the quarter ended November 30, 2016 decreased to \$71.1 million, compared to \$72.4 million in the prior fiscal year quarter. The decrease was primarily driven by lower consumer magazines sales of custom publishing programs of \$1.6 million. In addition, classroom magazines sales were lower by \$0.5 million related to the timing of subscription delivery and library publishing sales decreased by \$0.5 million. This was partially offset by higher sales for classroom books, literacy initiatives and professional learning products and services which contributed \$1.6 million in increased revenues.

Revenues for the six months ended November 30, 2016 increased to \$126.3 million, compared to \$122.8 million in the prior fiscal year period. Revenues from classroom books and literacy initiatives increased \$8.2 million, primarily driven by strong demand for guided reading programs, classroom books, literacy initiatives, summer reading and professional learning products and services. In addition, classroom magazines sales increased \$0.8 million, primarily due to demand for materials for the U.S. presidential election. This was partially offset by lower sales in the Company's consumer magazines of \$4.5 million, primarily driven by fewer custom publishing programs when compared to the prior fiscal year period.

Cost of goods sold for the quarter ended November 30, 2016 was \$21.9 million, or 31% of revenues, compared to \$23.3 million, or 32% of revenues, in the prior fiscal year quarter. The reduction in cost of goods sold as a percentage of revenues was primarily driven by lower prepublication and production amortization associated with certain digital education products.

Cost of goods sold for the six months ended November 30, 2016 was \$43.8 million, or 35% of revenues, compared to \$45.0 million, or 37% of revenues, in the prior fiscal year period. The reduction in cost of goods sold as a percentage of revenues was primarily driven by lower prepublication and production amortization associated with certain digital education products and favorable product mix as the higher classroom magazine sales carry higher margins.

Other operating expenses increased to \$40.5 million for the quarter ended November 30, 2016, compared to \$38.7 million in the prior fiscal year quarter. The increase was primarily due to additions to the sales management team, higher promotional related expenses and the impact of the wage improvement program for employees in the U.S. distribution centers.

Other operating expenses increased to \$78.2 million for the six months ended November 30, 2016, compared to \$71.7 million in the prior fiscal year period. The increase was primarily due to additions to the sales management team, higher promotional related expenses, the incurrence of higher operating expenses related to the sales of U.S. presidential election year materials in the classroom magazines channel and the impact of the wage improvement program for employees in the U.S. distribution centers.

Segment operating income in the quarter ended November 30, 2016 decreased by \$1.7 million compared to the prior fiscal year quarter. This was primarily driven by lower consumer magazines sales of custom publishing programs coupled with additions to the sales management team and the impact of the wage improvement program.

Segment operating income in the six months ended November 30, 2016 decreased by \$1.8 million compared to the prior fiscal year period. This was primarily driven by lower consumer magazines sales of custom publishing

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programs coupled with additions to the sales management team and the impact of the wage improvement program.

International

| (\$ amounts in millions) | Three months ended November 30, | | | | Six months ended November 30, | | | |
|---------------------------|---------------------------------|---------|-----------|----------|-------------------------------|---------|-----------|----------|
| | 2016 | 2015 | \$ change | % change | 2016 | 2015 | \$ change | % change |
| Revenues | \$119.5 | \$115.7 | \$ 3.8 | 3.3 % | \$209.2 | \$188.8 | \$ 20.4 | 10.8 % |
| Cost of goods sold | 60.9 | 60.1 | 0.8 | 1.3 % | 108.8 | 99.0 | 9.8 | 9.9 % |
| Other operating expenses* | 42.1 | 44.1 | (2.0) | -4.5 % | 80.0 | 81.0 | (1.0) | -1.2 % |
| Operating income (loss) | \$16.5 | \$11.5 | \$ 5.0 | | \$20.4 | \$8.8 | \$ 11.6 | |
| Operating margin | 13.8 % | 9.9 % | | | 9.8 % | 4.7 % | | |

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

Revenues for the quarter ended November 30, 2016 increased to \$119.5 million, compared to \$115.7 million in the prior fiscal year quarter. Total local currency revenues across the Company's foreign operations increased by \$6.6 million when compared to the prior fiscal year quarter. Local currency revenues from Canada increased \$7.2 million primarily due to the strength of new Harry Potter publishing and, to a lesser extent, improvements in revenues due to the impact the labor action in Ontario schools had on the prior fiscal quarter sales. In addition, local currency revenues from the Company's Asia operations coupled with the export and foreign rights channels increased \$1.7 million primarily due to certain export sales related to the strength of new Harry Potter publishing. Local currency revenues from the UK increased \$1.3 million, primarily due to an increase in revenues driven by newly licensed product and cinematic guides in connection with the film, *Fantastic Beasts and Where to Find Them*, released in November 2016, and higher book fairs channel revenues driven by the prior fiscal year acquisition of a leading book fair provider in the UK. Local currency revenues from Australia and New Zealand decreased \$3.6 million, primarily due to lower software distribution revenues of \$5.8 million as the Company is exiting this low margin business in Australia. This was partially offset by continued demand for local titles within the Australia trade channel and a strong fiscal second quarter performance from the Australia and New Zealand book club channels. Revenues were also impacted by \$2.8 million in unfavorable foreign exchange translation.

Revenues for the six months ended November 30, 2016 increased to \$209.2 million, compared to \$188.8 million in the prior fiscal year period. Total local currency revenues across the Company's foreign operations increased by \$25.2 million when compared to the prior fiscal year period. Local currency revenues from Canada increased \$17.0 million primarily due to the strength of new Harry Potter publishing and, to a lesser extent, improvements in revenues due to the impact the labor action in Ontario schools had on the prior fiscal period sales. In addition, local currency revenues from the Company's Asia operations coupled with the export and foreign rights channels increased \$7.3 million primarily due to certain export sales related to new Harry Potter publishing, as well as strong performance in the Company's Malaysia operations. Local currency revenues from the UK increased \$2.7 million, primarily due to an increase in revenues driven by newly licensed product and cinematic guides in connection with the film, *Fantastic Beasts and Where to Find Them*, released in November 2016, and higher book fairs channel revenues driven by the prior fiscal year acquisition of a leading book fair provider in the UK. Local currency revenues from Australia and New Zealand decreased \$1.8 million, primarily due to lower software distribution revenues of \$7.9 million as the Company is exiting this low margin business in Australia. This was partially offset by continued demand for local titles within the Australia trade channel and a strong fiscal second quarter performance from the Australia and New Zealand book club channels. Revenues were also impacted by \$4.8 million in unfavorable foreign exchange translation.

Cost of goods sold for the quarter ended November 30, 2016 was \$60.9 million, or 51% of revenues, compared to \$60.1 million, or 52% of revenues, in the prior fiscal year quarter. Cost of goods sold as a percentage of revenues decreased primarily due to Australia which experienced favorable product mix across most sales channels and exit of low margin media and technology business, coupled with the favorable impact higher revenues had on fixed costs, as well as favorable postage and freight and shipping costs in Canada, which were partially offset by higher royalty costs associated with higher sales of Harry Potter titles.

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Cost of goods sold for the six months ended November 30, 2016 was \$108.8 million, or 52% of revenues, compared to \$99.0 million, or 52% of revenues, in the prior fiscal year period. Cost of goods sold as a percentage of revenues were relatively flat with favorable product mix in Australia being offset by the higher royalty costs associated with higher sales of Harry Potter titles.

Other operating expenses for the quarter ended November 30, 2016 were \$42.1 million, compared to \$44.1 million in the prior fiscal year quarter. In local currencies, Other operating expenses decreased by \$0.9 million. Favorable operating expenses were partially offset by higher bad debt expenses in the Philippines, Thailand and Indonesia, due to current local economic conditions and \$0.2 million higher severance expense related to cost saving initiatives.

Other operating expenses for the six months ended November 30, 2016 were \$80.0 million, compared to \$81.0 million in the prior fiscal year period. In local currencies, Other operating expenses increased by \$1.1 million, primarily driven by higher bad debt expenses in the Philippines, Thailand and Indonesia, due to current local economic conditions and \$0.2 million higher severance expense related to cost saving initiatives.

Segment operating income for the quarter ended November 30, 2016 increased by \$5.0 million compared to the prior fiscal year quarter. This was primarily driven by the success of new Harry Potter publishing.

Segment operating income for the six months ended November 30, 2016 increased by \$11.6 million, compared to the prior fiscal year period. This was primarily driven by the success of new Harry Potter publishing.

Overhead

Unallocated overhead expense for the quarter ended November 30, 2016 increased by \$7.7 million to \$34.9 million, from \$27.2 million in the prior fiscal year quarter. The increase was primarily related to higher spending on strategic technology platforms for new enterprise-wide customer and content management systems and the migration to software as a service and cloud-based technology solutions as well as higher facilities-related expenses. This trend is expected to continue for the current and future fiscal year periods. Unallocated overhead expenses were also impacted by \$2.2 million in higher severance expense related to cost saving initiatives.

Unallocated overhead expense for the six months ended November 30, 2016 increased by \$17.6 million to \$61.3 million, from \$43.7 million in the prior fiscal year period. The increase was primarily related to higher spending on strategic technology platforms for new enterprise-wide customer and content management systems and the migration to software as a service and cloud-based technology solutions as well as higher employee-related expenses due to higher medical claims experience and higher facilities-related expenses. Unallocated overhead expenses were also impacted by \$0.8 million in higher severance expense related to cost saving initiatives for the six months ended November 30, 2016.

Seasonality

The Company's Children's Book Publishing and Distribution school-based book fair and book club channels and most of its Education businesses operate on a school-year basis; therefore, the Company's business is highly seasonal. As a result, the Company's revenues in the first and third quarters of the fiscal year generally are lower than its revenues in the other two fiscal quarters. Typically, school-based channels and magazine revenues are minimal in the first quarter of the fiscal year as schools are not in session. Trade sales can vary through the year due to varying release dates of published titles. The Company generally experiences a loss from operations in the first and third quarters of each fiscal year.

Liquidity and Capital Resources

The Company's cash and cash equivalents totaled \$442.9 million at November 30, 2016, \$399.7 million at May 31, 2016 and \$360.9 million at November 30, 2015. Cash and cash equivalents held by the Company's U.S. operations totaled \$425.5 million at November 30, 2016, \$385.3 million at May 31, 2016 and \$348.5 million at November 30, 2015.

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

Cash provided by operating activities was \$74.2 million for the six months ended November 30, 2016, compared to cash used in operating activities of \$178.0 million for the prior fiscal year period, representing an increase in cash provided by operating activities of \$252.2 million. The increase in cash provided was primarily due to the prior fiscal year payment of approximately \$186 million in income tax related to the sale of the Ed Tech business, a decrease in cash used in discontinued operations of \$9.7 million and favorable changes in operating assets and liabilities of \$48.5 million, driven by higher accrued royalties.

Cash used in investing activities was \$23.0 million for the six months ended November 30, 2016, compared to cash used in investing activities of \$14.0 million in the prior fiscal year period, representing higher cash used in investing activities of \$9.0 million. Higher capital spending in the period ended November 30, 2016 resulted in a use of cash of \$9.1 million due to increased spending for strategic technology initiatives and the investment plan to create premium retail space and modernize the Company's headquarters office space. This trend is expected to continue for the current and future fiscal year periods.

Cash used in financing activities was \$7.6 million for the six months ended November 30, 2016, compared to cash provided by financing activities of \$46.8 million for the prior fiscal year period, representing an increase in cash used in financing activities of \$54.4 million. The Company experienced lower proceeds pursuant to employee stock plans of \$26.1 million in the six months ended November 30, 2016, fewer cash collections under the transition services agreement of \$12.6 million, higher treasury stock repurchases of \$6.0 million, and higher short-term credit facility net repayments of \$4.1 million.

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

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

The Company has maintained, and expects to maintain for the foreseeable future, sufficient liquidity to fund ongoing operations, including pension contributions, dividends, currently authorized common share repurchases, debt service, planned capital expenditures and other investments. As of November 30, 2016, the Company's primary sources of liquidity consisted of cash and cash equivalents of \$442.9 million, cash from operations, and funding available under the Revolving Loan totaling approximately \$425.0 million. The Company may at any time, but in any event not more than once in any calendar year, request that the aggregate availability of credit under the Revolving Loan be increased by an amount of \$10.0 million or an integral multiple of \$10.0 million (but not to exceed \$150.0 million). Additionally, the Company has short-term credit facilities of \$52.9 million, less current borrowings of \$7.3 million and commitments of \$4.9 million, resulting in \$40.7 million of current availability at November 30, 2016. Accordingly, the Company believes these sources of liquidity are sufficient to finance its ongoing operating needs, as well as its financing and investing activities.

Financing

Loan Agreement

There were no outstanding borrowings under the Loan Agreement as of November 30, 2016. For a more complete description of the Company's Loan Agreement, see Note 4 of Notes to condensed consolidated financial statements - unaudited in Item 1, "Financial Statements."

New Accounting Pronouncements

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

SCHOLASTIC CORPORATION

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

Forward Looking Statements

This Quarterly Report on Form 10-Q contains forward-looking statements. Additional written and oral forward-looking statements may be made by the Company from time to time in Securities and Exchange Commission ("SEC") filings and otherwise. The Company cautions readers that results or expectations expressed by forward-looking statements, including, without limitation, those relating to the Company's future business prospects, plans, ecommerce and digital initiatives, new product introductions, strategies, new education standards, goals, revenues, improved efficiencies, general costs, manufacturing costs, medical costs, potential cost savings, wage and merit pay, operating margins, working capital, liquidity, capital needs, the cost and timing of capital projects, interest costs, cash flows and income, are subject to risks and uncertainties that could cause actual results to differ materially from those indicated in the forward-looking statements, due to factors including those noted in the Annual Report and other risks and factors identified from time to time in the Company's filings with the SEC. The Company disclaims any intention or obligation to update or revise forward-looking statements, whether as a result of new information, future events or otherwise.

SCHOLASTIC CORPORATION

Item 3. Quantitative and Qualitative Disclosures about Market Risk

The Company conducts its business in various foreign countries, and as such, its cash flows and earnings are subject to fluctuations from changes in foreign currency exchange rates. The Company sells products from its domestic operations to its foreign subsidiaries, creating additional currency risk. The Company manages its exposures to this market risk through internally established procedures and, when deemed appropriate, through the use of short-term forward exchange contracts, which were not significant as of November 30, 2016. The Company does not enter into derivative transactions or use other financial instruments for trading or speculative purposes.

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

Additional information relating to the Company's outstanding financial instruments is included in Note 4 of Notes to condensed consolidated financial statements - unaudited in Item 1, "Financial Statements."

The following table sets forth information about the Company's debt instruments as of November 30, 2016:

| (\$ amounts in millions) | Fiscal Year Maturity | | | | | | Total | Fair Value @ 11/30/2016 |
|---|----------------------|------|------|------|------|------------|--------|----------------------------|
| | 2017 (1) | 2018 | 2019 | 2020 | 2021 | Thereafter | | |
| Debt Obligations | | | | | | | | |
| Lines of Credit and current portion of long-term debt | \$7.3 | \$ — | \$ — | \$ — | \$ — | \$ — | —\$7.3 | \$ 7.3 |
| Average interest rate | 4.1 % | — | — | — | — | — | | |

(1) Fiscal 2017 includes the remaining six months of the current fiscal year ending May 31, 2017.

SCHOLASTIC CORPORATION

Item 4. Controls and Procedures

The Chief Executive Officer and the Chief Financial Officer of the Corporation, after conducting an evaluation, together with other members of the Company's management, of the effectiveness of the design and operation of the Corporation's disclosure controls and procedures as of November 30, 2016, have concluded that the Corporation's disclosure controls and procedures were effective to ensure that information required to be disclosed by the Corporation in its reports filed or submitted under the Securities Exchange Act of 1934 is recorded, processed, summarized, and reported within the time periods specified in the rules and forms of the SEC and accumulated and communicated to members of the Company's management, including the Chief Executive Officer and Chief Financial Officer, to allow timely decisions regarding required disclosure. There was no change in the Corporation's internal control over financial reporting that occurred during the quarter ended November 30, 2016 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 2. Unregistered Sales of Equity Securities and Use of Proceeds

The following table provides information with respect to repurchases of shares of Common Stock by the Corporation during the three months ended November 30, 2016:

Issuer Purchases of Equity Securities

(Dollars in millions, except per share amounts)

| Period | Total number of shares purchased | Average price paid per share | Total number of shares purchased as part of publicly announced plans or programs | Maximum number of shares (or approximate dollar value) that may yet be purchased under the plans or programs ⁽ⁱ⁾ |
|--|----------------------------------|------------------------------|--|---|
| September 1, 2016 through September 30, 2016 | 73,019 | \$ 38.78 | 73,019 | \$ 42.7 |
| October 1, 2016 through October 31, 2016 | 78,528 | \$ 38.03 | 78,528 | \$ 39.7 |
| November 1, 2016 through November 30, 2016 | 4,472 | \$ 38.00 | 4,472 | \$ 39.5 |
| Total | 156,019 | \$ 38.38 | 156,019 | \$ 39.5 |

(i) Represents the remaining amount under the current \$50 million Board authorization for Common share repurchases announced on July 22, 2015, which is available for further repurchases, from time to time as conditions allow, on the open market or through negotiated private transactions.

SCHOLASTIC CORPORATION

Item 6. Exhibits

Exhibits:

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

101.INS XBRL Instance Document

101.SCHXBRL Taxonomy Extension Schema Document

101.CALXBRL Taxonomy Extension Calculation Document

101.DEF XBRL Taxonomy Extension Definitions Document

101.LABXBRL Taxonomy Extension Labels Document

101.PRE XBRL Taxonomy Extension Presentation Document

SCHOLASTIC CORPORATION
SIGNATURES

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

SCHOLASTIC CORPORATION
(Registrant)

Date:

December
By: /s/ Richard Robinson
16,
2016

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

Date:

December
By: /s/ Maureen O'Connell
16,
2016

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

SCHOLASTIC CORPORATION
QUARTERLY REPORT ON FORM 10-Q, DATED NOVEMBER 30, 2016
Exhibits Index

| Exhibit Number | Description of Document |
|----------------|--|
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| 101.INS | XBRL Instance Document * |
| 101.SCH | XBRL Taxonomy Extension Schema Document * |
| 101.CAL | XBRL Taxonomy Extension Calculation Document * |
| 101.DEF | XBRL Taxonomy Extension Definitions Document * |
| 101.LAB | XBRL Taxonomy Extension Labels Document * |
| 101.PRE | XBRL Taxonomy Extension Presentation Document * |

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