SCHOLASTIC CORP
Form 10-K
July 29, 2013

United States

Securities and Exchange Commission

Washington, D.C. 20549

Form 10-K

Annual Report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the fiscal year ended May 31, 2013 | Commission File No. 000-19860

Scholastic Corporation

(Exact name of Registrant as specified in its charter)

Delaware	13-3385513
(State or other jurisdiction of incorporation or organization)	(IRS Employer Identification No.)
557 Broadway, New York, New York	10012
(Address of principal executive offices)	(Zip Code)

Registrant's telephone number, including area code: (212) 343-6100
Securities Registered Pursuant to Section 12(b) of the Act:

Title of class	Name of Each Exchange on Which Registered
Common Stock, $0.01 par value	The NASDAQ Stock Market LLC

Securities Registered Pursuant to Section 12(g) of the Act:
NONE

Indicate by check mark if the Registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.
Yes S No £

Indicate by check mark if the Registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.
Yes £ No S

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 S 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 (§ 232.405 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 S No £

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. £

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 definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

S 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 Act). Yes £ No S

The aggregate market value of the Common Stock, par value $0.01, held by non-affiliates as of November 30, 2012, was approximately $740,510,478. As of such date, non-affiliates held no shares of the Class A Stock, $0.01 par value. There is no active market for the Class A Stock.

The number of shares outstanding of each class of the Registrant’s voting stock as of June 28, 2013 was as follows: 30,116,979 shares of Common Stock and 1,656,200 shares of Class A Stock.

Documents Incorporated By Reference

Part III incorporates certain information by reference from the Registrant’s definitive proxy statement for the Annual Meeting of Stockholders to be held September 18, 2013.

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Part I

Item 1 | Business

Overview

Scholastic Corporation (the "Corporation" and together with its subsidiaries, "Scholastic" or the "Company") is a global children's publishing, education and media company. Since its founding in 1920, Scholastic has emphasized quality products and a dedication to reading and learning. The Company is the world's largest publisher and distributor of children's books and a leading provider of educational technology products and related services and children's media. Scholastic creates quality books and ebooks, print and technology-based learning materials and programs, magazines, multi-media and other products that help children learn both at school and at home. The Company is a leading operator of school-based book clubs and book fairs in the United States. It distributes its products and services through these proprietary channels, as well as directly to schools and libraries, through retail stores and through the internet. The Company's website, scholastic.com, is a leading site for teachers, classrooms and parents and an award-winning destination for children. Scholastic has operations in the United States, Canada, the United Kingdom, Australia, New Zealand, Ireland, India, China, Singapore and other parts of Asia, and, through its export business, sells products in approximately 140 countries.

The Company currently employs approximately 7,500 people in the United States and approximately 2,100 people outside the United States.

Operating Segments – Continuing Operations

The Company categorizes its businesses into five reportable segments: *Children's Book Publishing and Distribution*; *Educational Technology and Services*; *Classroom and Supplemental Materials Publishing*; *Media, Licensing and Advertising* (which collectively represent the Company's domestic operations); and *International*. This classification reflects the nature of products, services and distribution consistent with the method by which the Company's chief operating decision-maker assesses operating performance and allocates resources.

The following table sets forth revenues by operating segment for the three fiscal years ended May 31:

(Amounts in millions)

	2013	2012	2011
Children’s Book Publishing and Distribution	$846.9	$1,111.3	$922.0
Educational Technology and Services	227.7	254.7	230.8
Classroom and Supplemental Materials Publishing	218.0	208.2	197.2
Media, Licensing and Advertising	58.7	75.3	82.7
International	441.1	489.6	444.9
Total	$1,792.4	$2,139.1	$1,877.6

Additional financial information relating to the Company’s operating segments is included in Note 4 of Notes to Consolidated Financial Statements in Item 8, “Consolidated Financial Statements and Supplementary Data,” which is included herein.

CHILDREN’S BOOK PUBLISHING AND DISTRIBUTION

(47.2% of fiscal 2013 revenues)

General

The Company’s *Children’s Book Publishing and Distribution* segment includes the publication and distribution of children’s books in the United States through school-based book clubs, book fairs, ecommerce and the trade channel.

The Company is the world’s largest publisher and distributor of children’s books and is a leading operator of school-based book clubs and school-based book fairs in the United States. The Company is also a leading publisher of children’s print and ebooks distributed through the trade channel. Scholastic offers a broad range of children’s books, many of which have received awards for excellence in children’s literature, including the Caldecott and Newbery Medals. The Company also markets books to teachers, parents and children through Storia ®, an interactive and educational ereading app and ebookstore, launched during fiscal 2012 through the book club and book fair channels. Storia gives access to a growing selection of ebooks for kids and also allows teachers and parents to track the reader’s progress through each book, while making reading easier with the Storia dictionary, which defines and pronounces any word the reader highlights. Selected titles offered through the ebookstore include enriched ebooks, which also provide word games, story interactions and animation.

The Company obtains titles for sale through its distribution channels from three principal sources. The first source for titles is the Company’s publication of books created under exclusive agreements with authors, illustrators, book packagers or other media companies. Scholastic generally controls the exclusive rights to sell these titles through all channels of distribution in the United States and, to a lesser extent, internationally. Scholastic’s second source of titles is obtaining licenses to publish books exclusively in specified channels of distribution, including reprints of books originally published by other publishers for which the Company acquires rights to sell in the school market. The third source of titles is the Company’s purchase of finished books from other publishers.

School-Based Book Clubs

Scholastic founded its first school-based book club in 1948. The Company’s school-based book clubs consist of Honeybee ®, serving toddlers to age 4; Firefly ®, serving pre-kindergarten (“pre-K”) and kindergarten (“K”) students; SeeSaw ®, serving students grades K to 1; Lucky ®, serving students grades 2 to 3; Arrow ®, serving students grades 4 to 6; TAB ®, serving students grades 7 and up; and Club Leo™, which provides Spanish language offers to students in pre-K to grade 6. In addition to its regular offers, the Company creates special theme-based and seasonal offers targeted to different grade levels during the year.

The Company mails promotional materials containing order forms to teachers in the vast majority of the pre-K to grade 8 schools in the United States. Teachers who wish to participate in a school-based book club distribute the promotional materials to their students, who may choose from selections at substantial reductions from list prices. The teacher aggregates the students' orders and forwards them to the Company. The Company estimates that approximately 62% of all elementary school teachers in the United States who received promotional materials in fiscal 2013 participated in the Company's school-based book clubs. In fiscal 2013, approximately 90% of total book club orders were placed via the internet through COOL (Clubs Ordering On-Line), a new version of the Company's online ordering platform originally rolled out to all customers in the fall of 2010, which allows parents, as well as teachers, to order online, with improved ecommerce functionality. The orders are shipped to the classroom for distribution to the students. Sponsors who participate in the book clubs receive bonus points and other promotional incentives, which may be redeemed from the Company for additional books and other resource materials and items for their classrooms or the school.

School-Based Book Fairs

The Company began offering school-based book fairs in 1981 under the name Scholastic Book Fairs. Today, the Company is the leading distributor of school-based book fairs in the United States with operations in all 50 states. Book fairs give children access to hundreds of popular, quality books and educational materials, increase student reading and help book fair organizers raise funds for the purchase of school library and classroom books, supplies and equipment. Book fairs are generally weeklong events where children and families peruse and purchase their favorite books together. The Company delivers its book fairs from its warehouses to schools principally by a fleet of Company-owned vehicles. Sales and customer service representatives, working from the Company's regional offices, distribution facilities, and national distribution facility in Missouri, along with local area field representatives, provide support to book fair organizers. Book fairs are conducted by school personnel, volunteers and parent-teacher organizations, from which the schools may receive either books, supplies and equipment or a portion of the proceeds from every book fair they host. The Company is currently focused on increasing the number of second and third fairs conducted by its school customers during the school year and increasing attendance at each book fair event. Approximately 90% of the schools that conducted a Scholastic Book Fair in fiscal 2012 hosted a fair in fiscal 2013.

Trade

Scholastic is a leading publisher of children's books sold through bookstores, internet retailers and mass merchandisers in the United States. The Company maintains approximately 6,100 titles for trade distribution. Scholastic's original publications include Harry Potter ®, The Hunger Games, The 39 Clues ®, The Magic School Bus ®, I Spy™, Captain Underpants ®, Goosebumps ® and Clifford The Big Red Dog ®, and licensed properties such as Star Wars ®, Lego ® and Geronimo Stilton ®. In addition, the Company's Klutz® imprint is a publisher and creator of "books plus" products for children, including titles such as *Clay Charms*, *Star Wars Thumb Doodles* and *Beaded Bands.*

The Company's trade organization focuses on publishing, marketing and selling print and ebook properties to bookstores, internet retailers, mass merchandisers, specialty sales outlets and other book retailers, and also supplies the Company's proprietary school channels. The Company maintains a talented and experienced creative staff that constantly seeks to attract, develop and retain the best children's authors and illustrators. The Company believes that its trade publishing staff, combined with the Company's reputation and distribution channels, provides a significant competitive advantage, evidenced by numerous bestsellers over the past decade. Print bestsellers in the Trade division during fiscal 2013 included the Hunger Games trilogy by Suzanne Collins, which was also an ebook bestseller, The 39 Clues ® series and the Harry Potter series, as well as other titles, such as *Drama* by Raina Telgemeier, The Raven Boys by Maggie Stiefvater, and *Captain Underpants and the Revolting Revenge of the Radioactive Robo-Boxers* by Dav Pilkey.

Educational Technology and Services

(12.7% of fiscal 2013 revenues)

General

Scholastic Education, which encompasses the Company's core curriculum publishing operations, develops and distributes technology-based instructional materials directly to schools in the United States, primarily purchased through school and district budgets, often with the help of federal and state funding, as well as local funding. These operations include reading and math improvement programs and other educational technology products, as well as consulting and professional development services.

Scholastic Education's efforts are focused on partnering with school districts to raise student achievement by providing solutions that combine technology, content and services in the areas of reading and math. Significant technology-based reading improvement programs that Scholastic offers include: *READ 180* ®, a reading intervention program for students in grades 4 to 12 reading at least two years below grade level, *READ 180* ® Next Generation, a substantially revised version of the original product; *System 44* ®, a foundational reading intervention program for

students in grades 4 to 12 who have not yet mastered the 44 sounds and 26 letters of the English language; and Scholastic Reading Inventory, which is a research-based, computer-adaptive assessment for grades K to 12 that allows educators to assess a student's reading comprehension. Other major programs include *FASTT Math*®, a technology-based program to improve math fact fluency developed with the creator of *READ 180*, and *Do The Math* ®, a mathematics intervention program created by Marilyn Burns, a nationally known math educator and the founder of Math Solutions. The segment has made significant investments in new Educational Technology products which it plans to launch in fiscal 2014, including *System 44* ® Next Generation, *MATH 180*™, *iRead*™, *Common Core Code X*™ and *Read 180* for iPad ®. These new products will assist educators as they implement the Common Core State Standards and incorporate more technology and mobile solutions in the classroom. The Company considers its educational technology products and related services to be a growth driver and continues to focus on investment in its technology and services businesses.

Classroom and Supplemental Materials Publishing

(12.2% of fiscal 2013 revenues)

General

Classroom and Supplemental Materials Publishing includes the publication and distribution to schools and libraries of children's books, classroom magazines, supplemental classroom materials, custom curriculum and teaching guides and print and on-line reference and non-fiction products for grades pre-K to 12 in the United States.

Scholastic Classroom and Community Group

The Company is the leading provider of classroom libraries and paperback collections, including classroom books and guided reading products, to schools and school districts for classroom libraries and other uses, as well as to literacy organizations. Scholastic helps schools compile classroom collections of high quality, award-winning books for every grade level, reading level and multicultural background, including the

Phyllis C. Hunter and the *Leveled Math Readers* series. In 2013, partially in response to Common Core State Standards, this business began developing customized curriculum products and related teaching guides for classroom customers.

The teaching resources business publishes and sells professional books and supplemental materials designed for and generally purchased by teachers, both directly from the Company and through teacher stores and booksellers, including the Company's on-line Teacher store, which provides professional books and other educational materials to schools and teachers.

Scholastic Library Publishing and Classroom Magazines

Scholastic is a leading publisher of quality children's reference and non-fiction products and subscriptions to databases sold primarily to schools and libraries in the United States. The Company's products also include non-fiction books published in the United States under the imprints Children's Press® and Franklin Watts ®.

Scholastic is a leading publisher of classroom magazines. Teachers in grades pre-K to 12 use the Company's 30 classroom magazines, including *Scholastic News*®, *Junior Scholastic*® and *Weekly Reader* ®, to supplement formal learning programs by bringing subjects of current interest into the classroom, including literature, math, science, current events, social studies and foreign languages. Each magazine has its own website with online digital resources that supplement the print materials. Scholastic's classroom magazine circulation in the United States in fiscal 2013 was approximately 11.2 million, with approximately 70% of the circulation in grades pre-K to six. The majority of magazines purchased are paid for with school or district funds, with parents and teachers paying for the balance. Circulation revenue accounted for substantially all of the classroom magazine revenues in fiscal 2013.

MEDIA, LICENSING AND ADVERTISING

(3.3% of fiscal 2013 revenues)

General

The Company's *Media, Licensing and Advertising* segment includes the production and/or distribution of digital media, consumer promotions and merchandising and advertising revenue, including sponsorship programs.

Production and Distribution

Through Scholastic Media, the Company creates and produces programming and digital content for all platforms, including television, DVDs, audio, movies, interactive games, apps (applications) and websites. Scholastic Media builds consumer awareness and value for the Company's franchises by creating family-focused media that form the foundation for the Company's global branding campaigns. The media group generates revenue by exploiting these assets throughout the Scholastic distribution channels, globally across multiple media platforms and by developing and executing cross platform brand-marketing campaigns that support the Company's key franchises. Scholastic Media consists of Scholastic Entertainment Inc. (SEI), Scholastic Audio, Soup2Nuts Inc. (S2N), Weston Woods Studios, Inc. and Scholastic Interactive L.L.C.

SEI has built a television library consisting of over 500 half-hour productions, including: *Clifford The Big Red Dog* ®, *Clifford's Puppy Days* ™ , *WordGirl* ®, *Maya & Miguel* ™ , The *Magic School Bus* ®, *Turbo Dogs, I Spy, Goosebumps* ®, *Animorphs* ®, *Dear America* ®, *Horrible Histories* ®, *Sammy's Storyshop*™, *Stellaluna*, *The Very Hungry Caterpillar* and *The Baby-sitters Club* ®. These series have been sold in the United States and throughout the world and have garnered over 130 major awards including Emmys, Peabodys and an Academy award.

S2N, an award-winning animation and audio production studio, has produced television programming, including the animated series *Time Warp Trio* and *O'Grady,* and, with SEI, has produced 104 half-hour episodes of the Emmy award-winning animated series *Word Girl*. Weston Woods Studios, Inc. creates audiovisual adaptations of classic children's picture books, such as *Where the Wild Things Are*, *Chrysanthemum* and *Make Way for Ducklings*, which were initially produced for the school and library market and are now distributed through the retail market. Scholastic audio produces young adult and children's audio recordings for the school, library and retail markets.

Scholastic Interactive creates original and licensed consumer software, including handheld and console products and mobile apps, for grades pre-K to 8. Its products are distributed through the Company's school-based book clubs and book fairs, as well as to the library/teacher market and the retail market. The Company's titles for Leapster and LeapPad include the series *I Spy*, *Brain Play* ®, *Clifford* ®, *Goosebumps* ®, *The Magic School Bus* ®, *The 39 Clues* ® series, *Scholastic Animal Genius* ® and *Math Missions* ®.

Other

Also included in this segment is Scholastic National Partnerships, which partners with non-profit organizations, government agencies, associations and some corporations to develop literacy, education and pro-social campaigns which are aligned to the Company's corporate mission of supporting children's reading and learning in classrooms and at home, as well as the Company's consumer magazines business.

INTERNATIONAL

(24.6% of fiscal 2013 revenues)

General

The *International* segment includes the publication and distribution of products and services outside the United States by the Company's international operations, and its export and foreign rights businesses.

Scholastic has operations in Canada, the United Kingdom, Australia, New Zealand, Ireland, India, China, Singapore and other parts of Asia. Scholastic's operations in Canada, the United Kingdom and Australia generally mirror its United States business model. The Company's international operations have original trade and educational publishing programs; distribute children's books, software and other materials through school-based book clubs, school-based book fairs and trade channels; produce and distribute magazines; and offer on-line services. Many of the Company's international operations also have their own export and foreign rights licensing programs and are book publishing licensees for major media properties. Original books published by most of these operations have received awards for excellence in children's literature. In Asia, the Company also publishes and distributes reference products and provides services under the Grolier name, and it also operates tutorial centers that provide English language training to students.

Canada

Scholastic Canada, founded in 1957, is a leading publisher and distributor of English and French language children's books. Scholastic Canada also is the largest school-based book club and school-based book fair operator in Canada and is one of the leading suppliers of original or licensed children's books to the Canadian trade market. Since 1965, Scholastic Canada has also produced quality Canadian-authored books and educational materials, including an early reading program sold to schools for grades K to 6.

United Kingdom

Scholastic UK, founded in 1964, is the largest school-based book club and school-based book fair operator and a leading children's publisher in the United Kingdom. Scholastic UK also publishes supplemental educational materials, including professional books for teachers, and is one of the leading suppliers of original or licensed children's books to the United Kingdom trade market.

Australia

Scholastic Australia, founded in 1968, is the largest school-based book club and book fair operation in Australia, reaching approximately 90% of the country's primary schools. Scholastic Australia also publishes quality children's books supplying the Australian trade market.

New Zealand

Scholastic New Zealand, founded in 1962, is the largest children's book publisher and the leading book distributor to schools in New Zealand. Through its school-based book clubs and book fairs, Scholastic New Zealand reaches approximately 90% of the country's primary schools. In addition, Scholastic New Zealand publishes quality children's books supplying the New Zealand trade market.

Asia

The Company's Asian operations include initiatives for educational programs based out of Singapore, as well as the wholly-owned Grolier direct sales business, which sells English language reference materials and early childhood learning materials through a network of independent sales representatives in India, Indonesia, Malaysia, the Philippines, Singapore and Thailand. In addition, the Company operates school-based book clubs and book fairs throughout Asia; publishes original titles in English and Hindi languages in India, including specialized curriculum books for local schools; conducts reading improvement programs inside local schools in the Philippines; and operates a chain of English language tutorial centers in China in cooperation with local partners.

Foreign Rights and Export

The Company licenses the rights to selected Scholastic titles in over 45 languages to other publishing companies around the world. The Company's export business sells educational materials, software and children's books to schools, libraries, bookstores and other book distributors in approximately 140 countries that are not otherwise directly serviced by Scholastic subsidiaries. The Company partners with governments and non-governmental agencies to create and distribute books to public schools in developing countries.

Discontinued Operations

The Company closed or sold several operations during fiscal 2009, 2010, 2012 and 2013. During the first quarter of fiscal 2012, the Company ceased operations in its direct-to-home catalog business specializing in toys. In the fourth quarter of fiscal 2013, the Company sold a facility that was previously classified as held for sale. Also in the fourth quarter of fiscal 2013, the Company discontinued a computer club business, which was included in the *Children's Book Publishing and Distribution* segment, and discontinued a subscription-based business which was previously reported in the *Media, Licensing and Advertising* segment. All of these businesses are classified as discontinued operations in the Company's financial statements.

PRODUCTION AND DISTRIBUTION

The Company's books, magazines, software and interactive products and other materials are manufactured by the Company with the assistance of third parties under contracts entered into through arms-length negotiations or competitive bidding. As appropriate, the Company enters into multi-year agreements that guarantee specified volume in exchange for favorable pricing terms. Paper is purchased directly from paper mills and other third-party sources. The Company does not anticipate any difficulty in continuing to satisfy its manufacturing and paper requirements.

In the United States, the Company mainly processes and fulfills orders for school-based book clubs, trade, curriculum publishing, reference and non-fiction products and export orders from its primary warehouse and distribution facility in Jefferson City, Missouri. Magazine orders are processed at the Jefferson City facility and are shipped directly from printers. Orders for ebooks are fulfilled through a third party.

In connection with its trade business, the Company sometimes will ship product directly from printers to customers. School-based book fair orders are fulfilled through a network of warehouses across the country. The Company's international school-based book clubs, school-based book fair, trade and educational operations use distribution systems similar to those employed in the U.S.

CONTENT ACQUISITION

Access to intellectual property or content ("Content") for the Company's product offerings is critical to the success of the Company's operations. The Company incurs significant costs for the acquisition and development of Content for its product offerings. These costs are often deferred and recognized as the Company generates revenues derived from the benefits of these costs. These costs include the following:

- **Prepublication costs.** Prepublication costs are incurred in all of the Company’s reportable segments. Prepublication costs include costs incurred to create and develop the art, prepress, editorial, digital conversion and other content required for the creation of the master copy of a book or other media. While prepublication costs in the *Children’s Book Publishing and Distribution* segment are relatively modest amounts for each individual title, there are a large number of separate titles published annually. Prepublication costs in the *Educational Technology and Services* segment are often in excess of $1 million for an individual program, as the development of Content for complex intervention and educational programs requires significant resources and investment.

- **Royalty advances.** Royalty advances are incurred in all of the Company’s reportable segments, but are most prevalent in the *Children’s Book Publishing and Distribution* segment and enable the Company to obtain contractual commitments from authors to produce Content. The Company regularly provides authors with advances against expected future royalty payments, often before the books are written. Upon publication and sale of the books or other media, the authors generally will not receive further royalty payments until the contractual royalties earned from sales of such books or other media exceed such advances. The Company values its position in the market as the largest publisher and distributor of children's books in obtaining Content, and the Company’s experienced editorial staff aggressively acquires content from new and established authors.

- **Production costs.** Production costs are incurred in the *Media, Licensing and Advertising* segment. Production costs include the costs to create films, television programming, home videos and other entertainment Content. These costs include the costs of talent, artists, production crews and editors, as well as other costs incurred in connection with the production of this Content. Advertising and promotional costs are not included in production costs.

SEASONALITY

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

and services are highest in the first and fourth quarters. The Company generally experiences a loss from operations in the first and third quarters of each fiscal year. Trade sales can vary throughout the year due to varying release dates of published titles.

COMPETITION

The markets for children's books and entertainment materials and educational technology products and other educational materials are highly competitive. Competition is based on the quality and range of materials made available, price, promotion and customer service, as well as the nature of the distribution channels. Competitors include numerous other book, ebook, textbook, library, reference material and supplementary text publishers, distributors and other resellers (including over the internet) of children's books and other educational materials, national publishers of classroom and professional magazines with substantial circulation, numerous producers of television and film programming (many of which are substantially larger than the Company), television and cable networks, publishers of computer software and interactive products, and distributors of products and services on the internet. In the United States, competitors also include regional and local school-based book fair operators, other fundraising activities in schools, and bookstores. In its educational technology business, additional competitive factors include the demonstrated effectiveness of the products being offered, as well as available funding sources to school districts, and, although the Company believes no other organization or company offers as comprehensive an offering as its suite of reading and math intervention products and services, the Company faces competition from textbook publishers, distributors of other technology-based programs addressing the subject areas of the Company's offerings, such as reading, phonics and mathematics, and, with respect to its consulting services, not-for-profit organizations providing consulting covering various areas related to education. Competition may increase to the extent that other entities enter the market and to the extent that current competitors or new competitors develop and introduce new materials that compete directly with the products distributed by the Company or develop or expand competitive sales channels. The Company believes that its position as both a publisher and distributor are unique to certain of the markets in which it competes, principally in the context of its children's book business.

COPYRIGHT AND TRADEMARKS

As an international publisher and distributor of books, software and other media products, Scholastic aggressively utilizes the intellectual property protections of the United States and other countries in order to maintain its exclusive rights to identify and distribute many of its products. Accordingly, SCHOLASTIC is a trademark registered in the United States and in a number of countries where the Company conducts business. The Corporation's principal operating subsidiary in the United States, Scholastic Inc., and the Corporation's international subsidiaries have registered and/or have pending applications to register in relevant territories trademarks for important services and programs. All of the Company's publications, including books, magazines and software and interactive products, are subject to copyright protection both in the United States and internationally. The Company also obtains domain name protection for its internet domains. The Company seeks to obtain the broadest possible intellectual property rights for its products, and because inadequate legal and technological protections for intellectual property and proprietary rights could adversely affect operating results, the Company vigorously defends those rights against infringement.

Executive Officers

The following individuals have been determined by the Board of Directors to be the executive officers of the Company. Each such individual serves in his or her position with Scholastic until such person's successor has been elected or appointed and qualified or until such person's earlier resignation or removal.

Name	Age	Employed by Registrant Since	Position(s) for Past Five Years
Richard Robinson	76	1962	Chairman of the Board (since 1982), President (since 1974) and Chief Executive Officer (since 1975).
Maureen O'Connell	51	2007	Executive Vice President, Chief Administrative Officer and Chief Financial Officer (since 2007).
Margery W. Mayer	61	1990	Executive Vice President (since 1990), President, Scholastic Education (since 2002) and Executive Vice President, Learning Ventures (1998-2002).
Judith A. Newman	55	1993	Executive Vice President and President, Book Clubs and eCommerce (since 2011), Book Clubs (since 2005) and Scholastic At Home (2005-2006); Senior Vice President and President, Book Clubs and Scholastic At Home (2004-2005); and Senior Vice President, Book Clubs (1997-2004).
Andrew S. Hedden	72	2008	Member of the Board of Directors (since 1991) and Executive Vice President, General Counsel and Secretary (since 2008); prior to joining the Company, partner at the law firm of Baker & McKenzie LLP (2005-2008) and the law firm of Coudert Brothers LLP (1975-2005).
Alan Boyko	59	1988	President, Scholastic Book Fairs, Inc. (since 2005).

Available Information

The Corporation's annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and any amendments to those reports are accessible at the Investor Relations portion of its website (scholastic.com) and are available, without charge, as soon as reasonably practicable after such reports are electronically filed or furnished to the Securities and Exchange Commission ("SEC"). The Company also posts the dates of its upcoming scheduled financial press releases, telephonic investor calls and investor presentations on the "Events and Presentations" portion of its website at least five days prior to the event. The Company's investor calls are open to the public and remain available through the Company's website for at least 45 days thereafter.

The public may also read and copy materials that the Company files with the SEC at the SEC's Public Reference Room at 100 F Street, N.E., Washington, DC 20549. The public may obtain information, as well as copies of the Company's filings, from the Office of Investor Education and Advocacy by calling the SEC at 1-800-SEC-0330. The SEC also maintains an internet site, at www.sec.gov, that contains reports, proxy and information statements and other

information regarding issuers that file electronically with the SEC.

Item 1A | Risk Factors

Set forth below and elsewhere in this Annual Report on Form 10-K and in other documents that the Corporation files with the SEC are risks that should be considered in evaluating the Corporation's common stock, as well as risks and uncertainties that could cause the actual future results of the Company to differ from those expressed or implied in the forward-looking statements contained in this Report and in other public statements the Company makes. Additionally, because of the following risks and uncertainties, as well as other variables affecting the Company's operating results, the Company's past financial performance should not be considered an indicator of future performance.

If we cannot anticipate trends and develop new products or adapt to new technologies responding to changing customer preferences, this could adversely affect our revenues or profitability.

The Company operates in highly competitive markets that are subject to rapid change, including, in particular, changes in customer preferences and changes and advances in relevant technologies. There are substantial uncertainties associated with the Company's efforts to develop successful educational, trade publishing, entertainment and software and interactive products and services for its customers, as well as to adapt its print and other materials to new digital technologies, including the internet, ebook reader devices, tablets and school-based technologies. The Company makes significant investments in new products and services that may not be profitable, or whose profitability may be significantly lower than the Company has experienced historically. In particular, in the context of the Company's current focus on key digital opportunities, including ebooks for children, the market is developing and the Company may be unsuccessful in establishing itself as a significant factor in any market which does develop. Many aspects of an ebook market which could develop for children, such as the nature of the relevant software and hardware, the size of the market, relevant methods of delivery, including affordable devices, and relevant content, as well as pricing models, are developing and will, most likely, be subject to change on a recurrent basis until a pattern develops and the potential market for children becomes more defined. There can be no assurance that the Company will be successful in implementing its ebook strategy, including the continuing development of its Storia ereading app and ebookstore for children, which could adversely affect the Company's revenues and growth opportunities. The Company has relied on outside providers to assist in the development of ebook reader technologies. The failure of these providers to continue to deliver services to the Company as expected would have a negative effect on the Company's endeavors in these new markets. In addition, the Company faces technological risks associated with software product development and service delivery in its educational technology and ecommerce businesses, as well as its internal business support systems, which could involve service failures, delays or internal system failures that result in damages, lost business or failures to be able to fully exploit business opportunities.

Our financial results would suffer if we fail to successfully meet market needs in school-based book clubs and book fairs, two of our core businesses.

The Company's school-based book clubs and book fairs are core businesses, which produce a substantial part of the Company's revenues. The Company is subject to the risk that it will not successfully develop and execute new

promotional strategies for its school-based book clubs or book fairs in response to future customer trends, including any trends relating to a demand for ebooks on the part of customers, or technological changes or that it will not otherwise meet market needs in these businesses in a timely or cost-effective fashion and successfully maintain teacher or school sponsorship and ordering levels, which would have an adverse effect on the Company's financial results.

If we fail to maintain the continuance of strong relationships with our authors, illustrators and other creative talent, as well as to develop relationships with new creative talent, our business could be adversely affected.

The Company's business, in particular the trade publishing and media portions of the business, is highly dependent on maintaining strong relationships with the authors, illustrators and other creative talent who produce the products and services that are sold to its customers. Any overall weakening of these relationships, or the failure to develop successful new relationships, could have an adverse impact on the Company's business and financial performance.

If we fail to adapt to new purchasing patterns or requirements, our business and financial results could be adversely affected.

The Company's business is affected significantly by changes in customer purchasing patterns or trends in, as well as the underlying strength of, the educational, trade, entertainment and software markets. In particular, the Company's educational technology and services and educational publishing businesses may be adversely affected by budgetary restraints and other changes in state educational funding as a result of new legislation or regulatory actions, both at the federal and state level, as well as changes in the procurement process, to which the Company may be unable to adapt successfully. In addition, there are many competing demands for educational funds, and there can be no guarantee that the Company will otherwise be successful in continuing to obtain sales of its products from any available funding.

The competitive pressures we face in our businesses could adversely affect our financial performance and growth prospects.

The Company is subject to significant competition, including from other educational and trade publishers and media, entertainment and internet companies, as well as retail and internet distributors, many of which are substantially larger than the Company and have much greater resources. To the extent the Company cannot meet these challenges from existing or new competitors, including in the educational publishing business, and develop new product offerings to meet customer preferences or needs, the Company's revenues and profitability could be adversely affected.

The reputation of the Company is one of its most important assets, and any adverse publicity or adverse events, such as a significant data privacy breach, could cause significant reputational damage and financial loss.

The businesses of the Company focus on learning and education, and its key relationships are with educators, teachers, parents and children. In particular, the Company believes that, in selecting its products, teachers, educators and parents rely on the Company's reputation for quality educational products appropriate for children. Also, in certain of its businesses the Company holds significant volumes of personal data, including that of customers, and, in its educational technology business, students. Adverse publicity, whether or not valid, could reduce demand for the Company's products or adversely affect its relationship with teachers or educators, impacting participation in book clubs or book fairs or decisions to purchase educational technology or other products or services of the Company's educational technology business. Further, a failure to adequately protect personal data, including that of customers or students, or other data security failure could lead to penalties, significant remediation costs and reputational damage, including loss of future business.

If we are unsuccessful in implementing our corporate strategy we may not be able to maintain our historical growth.

The Company’s future growth depends upon a number of factors, including the ability of the Company to successfully implement its strategies for the respective business units in a timely manner, the introduction and acceptance of new products and services, including the success of its digital strategy and its ability to implement new product introductions in its educational technology business, its ability to expand in the global markets that it serves, its ability to meet demand for content meeting Common Core State standards and its continuing success in implementing on-going cost containment and reduction programs. Difficulties, delays or failures experienced in connection with any of these factors could materially affect the future growth of the Company.

Increases in certain operating costs and expenses, which are beyond our control and can significantly affect our profitability, could adversely affect our operating performance.

The Company’s major expense categories include employee compensation and printing, paper and distribution (such as postage, shipping and fuel) costs. The Company offers its employees competitive salaries and benefit packages in order to attract and retain the quality of employees required to grow and expand its businesses. Compensation costs are influenced by general economic factors, including those affecting costs of health insurance, post-retirement benefits and any trends specific to the employee skill sets that the Company requires.

Paper prices fluctuate based on worldwide demand and supply for paper, in general, as well as for the specific types of paper used by the Company. If there is a significant disruption in the supply of paper or a significant increase in such costs, or in its shipping or fuel costs, beyond those currently anticipated, which would generally be beyond the control of the Company, or if the Company’s strategies to try to manage these costs, including additional cost savings initiatives, are ineffective, the Company’s results of operations could be adversely affected.

The inability to obtain and publish best-selling new titles such as Harry Potter and the Hunger Games trilogy could cause our future results to decline in comparison to historical results.

The Company invests in authors and illustrators for its Trade publication business, and has a history of publishing hit titles such as Harry Potter and the Hunger Games trilogy. The inability to publish best-selling new titles in future years could negatively impact the Company.

The loss of or failure to obtain rights to intellectual property material to our businesses would adversely affect our financial results.

The Company's products generally comprise intellectual property delivered through a variety of media. The ability to achieve anticipated results depends in part on the Company's ability to defend its intellectual property against infringement, as well as the breadth of rights obtained. The Company's operating results could be adversely affected by inadequate legal and technological protections for its intellectual property and proprietary rights in some jurisdictions, markets and media, as well as by the costs of dealing with claims alleging infringement involving business method patents in the ecommerce and internet area, and the Company's revenues could be constrained by limitations on the rights that the Company is able to secure to exploit its intellectual property in different media and distribution channels.

Because we sell our products and services in foreign countries, changes in currency exchange rates, as well as other risks and uncertainties, could adversely affect our operations and financial results.

The Company has various operating subsidiaries domiciled in foreign countries. In addition, the Company sells products and services to customers located in foreign countries where it does not have operating subsidiaries, and a significant portion of the Company's revenues are generated from outside of the United States. The Company's business processes, including distribution, sales, sourcing of content, marketing and advertising are, accordingly, subject to multiple national, regional and local laws, regulations and policies. The Company could be adversely affected by laws, regulations and policies, as well as by fluctuations in currency exchange rates and by political, financial or economic instability in foreign countries.

Certain of our activities are subject to weather risks, which could disrupt our operations or otherwise adversely affect our financial performance.

The Company conducts certain of its businesses and maintains warehouse and office facilities in locations that are at risk of being negatively affected by severe weather events, such as hurricanes, tornados, floods or snowstorms. This

could impact the Company's school-based book clubs, school-based book fairs and education businesses, in particular as a result of school closures caused by such events. Accordingly, the Company could be adversely affected by any future significant weather event.

Control of the Company resides in our Chairman of the Board, President and Chief Executive Officer and other members of his family through their ownership of Class A Stock, and the holders of the Common Stock generally have no voting rights with respect to transactions requiring stockholder approval.

The voting power of the Corporation's capital stock is vested exclusively in the holders of Class A Stock, except for the right of the holders of Common Stock to elect one-fifth of the Board of Directors and except as otherwise provided by law or as may be established in favor of any series of preferred stock that may be issued. Richard Robinson, the Chairman of the Board, President and Chief Executive Officer, and other members of the Robinson family beneficially own all of the outstanding shares of Class A Stock and are able to elect up to four-fifths of the Corporation's Board of Directors and, without the approval of the Corporation's other stockholders, to effect or block other actions or transactions requiring stockholder approval, such as a merger, sale of substantially all assets or similar transaction.

Note

The risk factors listed above should not be construed as exhaustive or as any admission regarding the adequacy of disclosures made by the Company prior to and including the date hereof.

Forward-Looking Statements:

This Annual Report on Form 10-K contains forward-looking statements. Additional written and oral forward-looking statements may be made by the Company from time to time in 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, Common Core State Standards, goals, revenues, improved efficiencies, general costs, manufacturing costs, medical costs, merit pay, operating margins, working capital, liquidity, capital needs, 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 this 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.

Item 1B | Unresolved Staff Comments

None

Item 2 | Properties

The Company maintains its principal offices in the metropolitan New York area, where it owns or leases approximately 0.6 million square feet of space. The Company also owns or leases approximately 1.5 million square feet of office and warehouse space for its primary warehouse and distribution facility located in the Jefferson City, Missouri area. In addition, the Company owns or leases approximately 2.9 million square feet of office and warehouse space in over 70 facilities in the United States, principally for Scholastic book fairs.

Additionally, the Company owns or leases approximately 1.5 million square feet of office and warehouse space in over 100 facilities in Canada, the United Kingdom, Australia, New Zealand, Asia and elsewhere around the world for its international businesses.

The Company considers its properties adequate for its current needs. With respect to the Company’s leased properties, no difficulties are anticipated in negotiating renewals as leases expire or in finding other satisfactory space, if current premises become unavailable. For further information concerning the Company’s obligations under its leases, see Notes 1 and 6 of Notes to Consolidated Financial Statements in Item 8, “Consolidated Financial Statements and Supplementary Data.”

Item 3 | Legal Proceedings

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 these claims and lawsuits where a loss is considered probable or reasonably possible, after taking into account any amounts currently accrued, that the reasonably possible losses from such claims and lawsuits would have a material adverse effect on the Company’s consolidated financial position or results of operations.

Item 4 | Mine Safety Disclosures

Not Applicable.

Part II

Item 5 | Market for the Registrant’s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

Market Information: Scholastic Corporation’s common stock, par value $0.01 per share, is traded on the NASDAQ Global Select Market under the symbol SCHL. Scholastic Corporation’s Class A Stock, par value $0.01 per share (the “Class A Stock”), is convertible, at any time, into Common Stock on a share-for-share basis. There is no public trading market for the Class A Stock. Set forth below are the quarterly high and low closing sales prices for the Common Stock as reported by NASDAQ for the periods indicated:

	For fiscal years ended May 31,			
	2013		2012	
	High	Low	High	Low
First Quarter	$31.99	$26.04	$30.20	$23.32
Second Quarter	34.55	25.03	30.00	24.20
Third Quarter	31.56	27.81	32.00	24.76
Fourth Quarter	32.09	25.62	40.18	26.80

Holders: The number of holders of Class A Stock and Common Stock as of July 24, 2013 were 3 and approximately 10,000, respectively.

Dividends: During the first and second quarters of fiscal 2012, the Company paid a regular quarterly dividend in the amount of $0.10 per Class A and Common share, which dividend was increased to $0.125 per Class A and Common share for the third and fourth quarters of fiscal 2012. Accordingly, the total dividend paid for fiscal 2012 was $0.45 per share. During fiscal 2013, the Company paid a regular quarterly dividend in the amount of $0.125 per Class A and Common share, amounting to a total dividend paid in fiscal 2013 of $0.50 per share. On July 17, 2013, the Board of Directors declared a cash dividend of $0.125 per Class A and Common share in respect of the first quarter of fiscal 2014. This dividend is payable on September 16, 2013 to shareholders of record on August 30, 2013. All dividends have been in compliance with the Company’s debt covenants.

Share purchases: During fiscal 2013, the Company repurchased 432,330 Common shares on the open market at an average price paid per share of $27.34, for a total of approximately $11.8 million, pursuant to a share buy-back program authorized by the Board of Directors. During fiscal 2012, the Company repurchased 475,672 Common shares on the open market at an average price paid per share of $27.48, for a total cost of approximately $13.1 million, pursuant to a share buy-back program authorized by the Board of Directors.

The following table provides information with respect to purchases of shares of Common Stock by the Corporation during the quarter ended May 31, 2013:

Period	**Total number of shares purchased**	**Average price paid per share**	**Total number of shares purchased as part of publicly announced plans or programs**	**Approximate dollar value (in millions) that may yet be purchased under the plans or programs**
March 1, 2013 through March 31, 2013	61,251	$ 26.24	61,251	$ 24.0
April 1, 2013 through April 30, 2013	168,447	$ 26.05	168,447	$ 19.6
May 1, 2013 through May 31, 2013	—	$ —	—	$ 19.6
Total	229,698	$ 26.10	229,698	$ 19.6

As of May 31, 2013, approximately $19.6 million remained available for future purchases of Common shares under the current repurchase authorization of the Board of Directors.

Stock Price Performance Graph

The graph below matches the Corporation’s cumulative 5-year total shareholder return on Common Stock with the cumulative total returns of the NASDAQ Composite index and a customized peer group of two companies that includes Pearson PLC and John Wiley & Sons Inc.

In the prior year, the customized peer group also included The McGraw-Hill Companies, which is no longer included in such peer group due to the reorganization of the McGraw-Hill Companies and subsequent sale of its education and educational publishing businesses in March 2013, resulting in such businesses no longer being part of a publicly traded company. The McGraw-Hill Companies had been included in the peer group primarily on the basis of its education and educational publishing businesses. The graph tracks the performance of a $100 investment in the Corporation’s Common Stock, in the peer group and in the index (with the reinvestment of all dividends) from June 1, 2008 to May 31, 2013.

COMPARISON OF 5 YEAR CUMULATIVE TOTAL RETURN*

Among Scholastic Corporation, the NASDAQ Composite Index and a Peer Group

*$100 invested on 5/31/08 in stock or index, including reinvestment of dividends.

Fiscal year ending May 31.

	Fiscal year ended May 31,					
	2008	**2009**	**2010**	**2011**	**2012**	**2013**
Scholastic Corporation	$100.00	$62.74	$84.64	$89.32	$89.76	$102.41
NASDAQ Composite Index	100.00	70.34	89.47	112.39	112.08	118.20
Peer Group	100.00	80.88	107.36	151.22	145.17	154.35

The stock price performance included in this graph is not necessarily indicative of future stock price performance.

Item 6 | Selected Financial Data

(Amounts in millions, except per share data) For fiscal years ended May 31,	2013	2012	2011	2010	2009
Statement of Operations Data:					
Total revenues	$1,792.4	$2,139.1	$1,877.6	$1,882.0	$1,812.8
Cost of goods sold (exclusive of depreciation and amortization)	829.6	984.6	869.0	843.1	859.5
Selling, general and administrative expenses (exclusive of depreciation and amortization) (1)	815.0	878.5	834.7	798.7	778.1
Depreciation and amortization (2)	66.5	68.8	60.1	59.5	61.2
Severance (3)	13.4	14.9	6.7	9.2	26.5
Loss on leases and asset impairments (4)	0.0	7.0	3.4	40.1	26.3
Operating income	67.9	185.3	103.7	131.4	61.2
Other income (expense)	0.0	(0.1)	(0.4)	0.9	0.7
Interest expense, net	14.5	15.5	15.6	16.2	23.0
Loss on investments (5)	—	—	(3.6)	(1.5)	(13.5)
Earnings (loss) from continuing operations	35.8	108.1	45.3	60.5	7.3
Earnings (loss) from discontinued operations, net of tax	(4.7)	(5.7)	(5.9)	(4.4)	(21.6)
Net income (loss)	31.1	102.4	39.4	56.1	(14.3)
Share Information:					
Earnings (loss) from continuing operations:					
Basic	$1.12	$3.45	$1.36	$1.66	$0.20
Diluted	$1.10	$3.39	$1.34	$1.64	$0.20
Earnings (loss) from discontinued operations:					
Basic	$(0.15)	$(0.18)	$(0.18)	$(0.12)	$(0.58)
Diluted	$(0.15)	$(0.18)	$(0.18)	$(0.12)	$(0.58)
Net income (loss):					
Basic	$0.97	$3.27	$1.18	$1.54	$(0.38)
Diluted	$0.95	$3.21	$1.16	$1.52	$(0.38)
Weighted average shares outstanding - basic	31.8	31.2	33.1	36.5	37.2
Weighted average shares outstanding - diluted	32.4	31.7	33.6	36.8	37.4
Dividends declared per common share	$0.50	$0.45	$0.35	$0.30	$0.30
Balance Sheet Data:					
Working Capital	$299.5	$427.5	$335.4	$493.6	$404.9
Cash and cash equivalents	87.4	194.9	105.3	244.1	143.6
Total assets	1,441.0	1,670.3	1,487.0	1,600.4	1,608.8
Long-term debt (excluding capital leases)	—	152.8	159.9	202.5	250.0
Total debt	2.0	159.3	203.4	252.8	303.7
Long-term capital lease obligations	57.5	56.4	55.0	55.0	54.5
Total capital lease obligations	57.7	57.4	55.5	55.9	57.9
Total stockholders’ equity	864.4	830.3	740.0	830.4	785.0

(1) In fiscal 2013, the Company recorded a pretax charge of $4.0 related to asset impairments. In fiscal 2012, the Company recorded a pretax charge of $1.3 for an impairment of a U.S.- based equity method investment. In fiscal 2011, the Company recorded a pretax charge of $3.0 associated with restructuring in the UK. In fiscal 2010, the Company recorded a pretax charge of $4.7 associated with restructuring in the UK. In fiscal 2009, the Company recorded a pretax charge of $1.4 related to asset impairments.

(2) In fiscal 2012, the Company recorded a pretax charge of $4.9 for the impairment of intangible assets relating to certain publishing properties.

(3) In fiscal 2013, the Company recorded pretax severance expense of $9.6 as part of a cost savings initiative. In fiscal 2012, the Company recorded pretax severance expense of $9.3 for a voluntary retirement program. In fiscal 2009, the Company recorded pretax expense of $18.1 for employee-related expense related to the Company's voluntary retirement program and a workforce reduction program.

(4) In fiscal 2012, the Company recorded a pretax impairment loss of $6.2 related to certain subleases in lower Manhattan. In fiscal 2011, the Company recorded a pretax impairment charge of $3.4 related to assets in the library publishing and classroom magazines business. In fiscal 2010, the Company recorded a pretax asset impairment charge of $36.3 attributable to intangible assets and prepublication costs associated with the library business and a pretax charge of $3.8 associated with a customer list. In fiscal 2009, the Company recorded a pretax goodwill impairment charge of $17.0 attributable to the Company's UK operations.

(5) In fiscal 2011, the Company recorded a pretax loss of $3.6 related to a UK-based cost method investment. In fiscal 2010, the Company recorded a pretax loss of $1.5 related to a U.S.-based cost method investment. In fiscal 2009, the Company recorded a pretax loss on investments of $13.5 related to investments in the UK.

Item 7 | Management's Discussion and Analysis of Financial Condition and Results of Operations

General

The Company categorizes its businesses into five reportable segments: *Children's Book Publishing and Distribution*; *Educational Technology and Services*; *Classroom and Supplemental Materials Publishing*; *Media, Licensing and Advertising* (which collectively represent the Company's domestic operations); and *International*. This classification reflects the nature of products, services and distribution consistent with the method by which the Company's chief operating decision-maker assesses operating performance and allocates resources.

The following discussion and analysis of the Company's financial position and results of operations should be read in conjunction with the Company's Consolidated Financial Statements and the related Notes included in Item 8, "Consolidated Financial Statements and Supplementary Data."

Overview and Outlook

In fiscal 2013, revenue was $1,792.4 million, compared to $2,139.1 million a year ago, largely driven by lower U.S. and international sales of The Hunger Games trilogy, partially offset by stronger sales from the Company's education businesses in the second half of the year. For the fiscal year, earnings per diluted share from continuing operations were $1.10 versus $3.39 in fiscal 2012.

The Company is operating at a time of significant change in the book business and in education and is well-positioned to capitalize on the opportunities presented by evolving needs in the classroom and buying behavior in children's books. With fewer retail outlets for children's books, parents are increasingly relying on the Company's book fair and book clubs channels to find age-appropriate, quality books. Additionally, educators are looking to the Company for custom print and digital curriculum packages and for technology-based programs, particularly for tablets, that support instructional needs as they implement the more rigorous Common Core State Standards.

The Company's significant role in the reading and learning lives of children, both at school and at home, continues to be a core strength of the Company. The Company expects growth in fiscal 2014 to be driven by further opportunities to deliver books to families that help link children's independent reading to Common Core State Standards, and to provide teachers and administrators with customized curriculum packages and professional development solutions that now cover grades pre-K to 12. Key to this growth is the introduction of five major new education technology products including *System 44* ® Next Generation, *MATH 180*™, iRead™, *Common Core Code X*™ and *Read 180* for iPad®, coupled with strong and growing demand for the Company's customized solutions packages provided through the *Classroom*

and Supplemental Materials Publishing segment. These packages, tailored for the K-8 English Language Arts block, include Guided Reading, Traits Writing, Classroom Magazines and other product and professional development offerings to meet the specific needs of school districts.

In the children's book businesses, the Company is aligning resources to serve customers in a unified way and introducing grade-specific marketing in the school book clubs. Children's book revenue is expected to decrease slightly compared to fiscal 2013 due to anticipated lower year over year sales of The Hunger Games trilogy, expected to be partially offset by increased revenue per fair in school book fairs and new titles released through the trade channel. Book club revenue is expected to be flat. As planned, fiscal 2014 investments in Storia, the Company's ereading platform and delivery system, will decrease. Platform development for Storia is substantially complete and future investments will focus on content delivery and enhancements, including features designed to make the application more useful in the classroom. The Company plans to continue to implement programs to enhance operating efficiency and to align its cost base with its revenue growth expectations.

Critical Accounting Policies and Estimates

General:

The Company's discussion and analysis of its financial condition and results of operations is based upon its Consolidated Financial Statements, which have been prepared in accordance with accounting principles generally accepted in the United States. The preparation of these financial statements involves the use of estimates and assumptions by management, which affects the amounts reported in the Consolidated Financial Statements and accompanying notes. The Company bases its estimates on historical experience, current business factors, future expectations and various other assumptions believed to be reasonable under the circumstances, all of which are necessary in order to form a basis for determining the carrying values of assets and liabilities. Actual results may differ from those estimates and assumptions. On an on-going basis, the Company evaluates the adequacy of its reserves and the estimates used in calculations, including, but not limited to: collectability of accounts receivable; sales returns; amortization periods; stock-based compensation expense; pension and other post-retirement obligations; tax rates; recoverability of inventories, deferred income taxes and tax reserves, fixed assets, prepublication costs, royalty advances and customer reward programs; and the fair value of goodwill and other intangibles. For a complete description of the Company's significant accounting policies, see Note 1 of Notes to Consolidated Financial Statements in Item 8, "Consolidated Financial Statements and Supplementary Data," of this Report. The following policies and account descriptions include all those identified by the Company as critical to its business operations and the understanding of its results of operations:

Revenue Recognition:

The Company's revenue recognition policies for its principal businesses are as follows:

School-Based Book Clubs – Revenue from school-based book clubs is recognized upon shipment of the products. For ebooks, revenue is recognized upon electronic delivery to the customer.

School-Based Book Fairs – Revenues associated with school-based book fairs are related to sales of product. Book fairs are typically run by schools and/or parent teacher organizations over a five business-day period. The amount of revenue recognized for each fair represents the net amount of cash collected at the fair. Revenue is fully recognized at the completion of the fair. At the end of reporting periods, the Company defers estimated revenue for those fairs that have not been completed as of the period end, based on the number of fair days occurring after period end on a straight-line calculation of the full fair's estimated revenue.

Trade –Revenue from the sale of children's books for distribution in the retail channel is recognized when risks and benefits transfer to the customer, or when the product is on sale and available to the public. For newly published titles, the Company, on occasion, contractually agrees with its customers when the publication may be first offered for sale to the public, or an agreed upon "Strict Laydown Date." For such titles, the risks and benefits of the publication are not deemed to be transferred to the customer until such time that the publication can contractually be sold to the public, and the Company defers revenue on sales of such titles until such time as the customer is permitted to sell the product to the public. Revenue for ebooks, which is the net amount received from the retailer, is generally recognized upon electronic delivery to the customer by the retailer.

A reserve for estimated returns is established at the time of sale and recorded as a reduction to revenue. Actual returns are charged to the reserve as received. The calculation of the reserve for estimated returns is based on historical return rates, sales patterns, type of product and expectations. Actual returns could differ from the Company's estimate. In order to develop the estimate of returns that will be received subsequent to May 31, 2013, management considers patterns of sales and returns in the months preceding May 31, 2013, as well as actual returns received subsequent to year end, available sell-through information and other return rate information that management believes is relevant. A one percentage point change in the estimated reserve for returns rate would have resulted in an increase or decrease in operating income for the year ended May 31, 2013 of approximately $0.7 million. A reserve for estimated bad debts is established based on the aggregate aging of accounts receivable and specific reserves on a customer-by-customer basis, where applicable.

Educational Technology and Services – For shipments to schools, revenue is recognized when risks and benefits transfer to the customer. Shipments to depositories are on consignment and revenue is recognized based on actual shipments from the depositories to the schools. For certain software-based products, the Company offers new customers installation, maintenance and training with these products and, in such cases, revenue is deferred and recognized as services are delivered or over the life of the contract. Revenues from contracts with multiple deliverables are recognized as each deliverable is earned, based on the relative selling price of each deliverable, provided the deliverable has value to customers on a standalone basis, the customer has full use of the deliverable and there is no further obligation from the Company. If there is a right of return, revenue is recognized if delivery of the undelivered items or services is probable and substantially in control of the Company.

Classroom and Supplemental Materials Publishing – Revenue from the sale of classroom and supplemental materials is recognized upon shipment of the products.

Film Production and Licensing – Revenue from the sale of film rights, principally for the home video and domestic and foreign television markets, is recognized when the film has been delivered and is available for showing or exploitation. Licensing revenue is recorded in accordance with royalty agreements at the time the licensed materials are available to the licensee and collections are reasonably assured.

Magazines – Revenue is deferred and recognized ratably over the subscription period, as the magazines are delivered.

Magazine Advertising – Revenue is recognized when the magazine is for sale and available to the subscribers.

Scholastic In-School Marketing – Revenue is recognized when the Company has satisfied its obligations under the program and the customer has acknowledged acceptance of the product or service. Certain revenues may be deferred pending future deliverables.

Accounts receivable:

Accounts receivable are recorded net of allowances for doubtful accounts and reserves for returns. In the normal course of business, the Company extends credit to customers that satisfy predefined credit criteria. Reserves for returns are based on historical return rates, sales patterns and an assessment of product on hand with the customer when estimable. Allowances for doubtful accounts are established through the evaluation of accounts receivable aging, prior collection experience and creditworthiness of the Company's customers to estimate the ultimate collectability of these receivables. At the time the Company determines that a receivable balance, or any portion thereof, is deemed to be permanently uncollectible, the balance is then written off. A one percentage point change in the estimated bad debt reserve rates, which are applied to the accounts receivable aging, would have resulted in an increase or decrease in operating income for the year ended May 31, 2013 of approximately $2.6 million.

Inventories:

Inventories, consisting principally of books, are stated at the lower of cost, using the first-in, first-out method, or market. The Company records a reserve for excess and obsolete inventory based upon a calculation using the historical usage rates and sales patterns of its products, and specifically identified obsolete inventory. The impact of a one percentage point change in the obsolescence reserve rate would have resulted in an increase or decrease in operating income for the year ended May 31, 2013 of approximately $3.6 million.

Royalty advances:

Royalty advances are initially capitalized and subsequently expensed as related revenues are earned or when the Company determines future recovery through earndowns is not probable. The Company has a long history of providing authors with royalty advances, and it tracks each advance earned with respect to the sale of the related

publication. Historically, the longer the unearned portion of the advance remains outstanding, the less likely it is that the Company will recover the advance through the sale of the publication, as the related royalties earned are applied first against the remaining unearned portion of the advance. The Company applies this historical experience to its existing outstanding royalty advances to estimate the likelihood of recovery. Additionally, the Company's editorial staff regularly reviews its portfolio of royalty advances to determine if individual royalty advances are not recoverable through earndowns for discrete reasons, such as the death of an author prior to completion of a title or titles, a Company decision to not publish a title, poor market demand or other relevant factors that could impact recoverability.

Goodwill and intangible assets:

Goodwill and other intangible assets with indefinite lives are not amortized and are reviewed for impairment annually or more frequently if impairment indicators arise.

With regard to goodwill, the Company compares the estimated fair value of its identified reporting units to the carrying value of the net assets. The Company first performs a qualitative assessment to determine whether it is more likely than not that the fair value of its identified reporting units are less than their carrying values. If it is more likely than not that the fair value of a reporting unit is less than its carrying amount the Company performs the two-step test. For each of the reporting units, the estimated fair value is determined utilizing the expected present value of the projected future cash flows of the units, in addition to comparisons to similar companies. The Company reviews its definition of reporting units annually or more frequently if conditions indicate that the reporting units may change. The Company evaluates its operating segments to determine if there are components one level below the operating segment level. A component is present if discrete financial information is available and segment management regularly reviews the operating results of the business. If an operating segment only contains a single component, that component is determined to be a reporting unit for goodwill impairment testing purposes. If an operating segment contains multiple components, the Company evaluates the economic characteristics of these components. Any components within an operating segment that share similar economic characteristics are aggregated and deemed to be a reporting unit for goodwill impairment testing purposes. Components within the same operating segment that do not share similar economic characteristics are deemed to be individual reporting units for goodwill impairment testing purposes. The Company has identified twelve separate reporting units for goodwill impairment testing purposes. The determination of the fair value of the Company's reporting units involves a number of assumptions, including the estimates of future cash flows, discount rates and market-based multiples, among others, each of which is subject to change. Accordingly, it is possible that changes in assumptions and the performance of certain reporting units could lead to impairments in future periods, which may be material.

The reporting unit associated with the Company's book clubs operations was the only reporting unit valued using a quantitative analysis as of May 31, 2013, as changes in market conditions and declining revenues in the period were indicative of a potential for goodwill impairment. The fair value of the unit declined from the prior year from $65.0 million to $59.5 million, but remained higher than the carrying value of $48.8

million. This reporting unit has $13.4 million of associated goodwill. The Company used forecasted cash flows, and to a lesser extent, observable revenue multiples for comparable companies, consistent with determining its fair value. A discount rate of 15% and a perpetual growth rate of 3% were employed for the discounted cash flow analysis and revenue multiples used were between 0.4 times historical revenues and 0.5 times future revenues. The value of the reporting unit is largely dependent on the success of the Storia ereading app which was launched in fiscal 2012. Should Storia not achieve its projected revenue, and the Company is unable to adjust its strategy to effectively compensate, there is a potential for an impairment of goodwill in this reporting unit in future periods.

With regard to other intangibles with indefinite lives, the Company determines the fair value by asset, which is then compared to its carrying value. The Company first performs a qualitative assessment to determine whether it is more likely than not that the fair value of its identified reporting unit is less than its carrying value. If it is more likely than not that the fair value of a reporting unit is less than its carrying amount the Company performs a quantitative test. The estimated fair value is determined utilizing the expected present value of the projected future cash flows of the asset.

Intangible assets with definite lives consist principally of customer lists, covenants not to compete, and certain other intellectual property assets and are amortized over their expected useful lives. Customer lists are amortized on a straight-line basis over a five-year period, while covenants not to compete are amortized on a straight-line basis over their contractual term. Other intellectual property assets are amortized over their remaining useful lives, which range from five to twenty years.

Unredeemed Incentive Credits:

The Company employs incentive programs to encourage sponsor participation in its book clubs and book fairs. These programs allow the sponsors to accumulate credits which can then be redeemed for Company products or other items offered by the Company. The Company recognizes a liability at the estimated cost of providing these credits at the time of the recognition of revenue for the underlying purchases of Company product that resulted in the granting of the credits. As the credits are redeemed, such liability is reduced.

Other noncurrent liabilities:

All of the rate assumptions discussed below impact the Company’s calculations of its pension and post-retirement obligations. The rates applied by the Company are based on the portfolios’ past average rates of return, discount rates and actuarial information. Any change in market performance, interest rate performance, assumed health care costs trend rate or compensation rates could result in significant changes in the Company’s pension and post-retirement obligations.

Pension obligations – The Company's pension calculations are based on three primary actuarial assumptions: the discount rate, the long-term expected rate of return on plan assets and the anticipated rate of compensation increases. The discount rate is used in the measurement of the projected, accumulated and vested benefit obligations and interest cost components of net periodic pension costs. The long-term expected return on plan assets is used to calculate the expected earnings from the investment or reinvestment of plan assets. The anticipated rate of compensation increase is used to estimate the increase in compensation for participants of the plan from their current age to their assumed retirement age. The estimated compensation amounts are used to determine the benefit obligations and the service cost. A one percentage point change in the discount rate would have resulted in an increase or decrease in operating income for the year ended May 31, 2013 of approximately $1.0 million and $0.8 million, respectively. A one percentage point change in the expected long-term return on plan assets would have resulted in an increase or decrease in operating income for the year ended May 31, 2013 of approximately $1.4 million. Pension benefits in the cash balance plan for employees located in the United States are based on formulas in which the employees' balances are credited monthly with interest based on the average rate for one-year United States Treasury Bills plus 1%. Contribution credits are based on employees' years of service and compensation levels during their employment periods for the periods prior to June 1, 2009.

Other post-retirement benefits – The Company provides post-retirement benefits, consisting of healthcare and life insurance benefits, to eligible retired United States-based employees. The post-retirement medical plan benefits are funded on a pay-as-you-go basis, with the employee paying a portion of the premium and the Company paying the remainder of the medical cost. The existing benefit obligation is based on the discount rate and the assumed health care cost trend rate. The discount rate is used in the measurement of the projected and accumulated benefit obligations and the service and interest cost components of net periodic post-retirement benefit cost. A one percentage point change in the discount rate would have resulted in an increase or decrease in operating income for the year ended May 31, 2013 of approximately $0.6 million. The assumed health care cost trend rate is used in the measurement of the long-term expected increase in medical claims. A one percentage point change in the health care cost trend rate would have resulted in an increase or decrease in operating income for the year ended May 31, 2013 of approximately $0.2 million and $0.1 million, respectively. A one percentage point change in the health care cost trend rate would have resulted in an increase or decrease in the post-retirement benefit obligation as of May 31, 2013 of approximately $4.0 million and $3.4 million, respectively.

Stock-based compensation – The Company measures the cost of services received in exchange for an award of equity instruments based on the grant-date fair value of the award. The Company recognizes the cost on a straight-line basis over an award's requisite service period, which is generally the vesting period, based on the award's fair value at the date of grant. The fair value of each option grant is estimated on the date of grant using the Black-Scholes option-pricing model. The determination of the assumptions used in the Black-Scholes model requires management to make significant judgments and estimates. The use of different assumptions and estimates in the option pricing model could have a material impact on the estimated fair value of option grants and the related expense. The risk-free interest rate is based on a U.S. Treasury

rate in effect on the date of grant with a term equal to the expected life. The expected term is determined based on historical employee exercise and post-vesting termination behavior. The expected dividend yield is based on actual dividends paid or to be paid by the Company. The volatility is estimated based on historical volatility corresponding to the expected life.

Income Taxes – The Company uses the asset and liability method of accounting for income taxes. Under this method, deferred tax assets and liabilities are determined based on differences between financial reporting and tax bases of assets and liabilities and are measured using enacted tax rates and laws that will be in effect when the differences are expected to enter into the determination of taxable income.

The Company believes that its taxable earnings, during the periods when the temporary differences giving rise to deferred tax assets become deductible or when tax benefit carryforwards may be utilized, should be sufficient to realize the related future income tax benefits. For those jurisdictions where the expiration date of the tax benefit carryforwards or the projected taxable earnings indicate that realization is not likely, the Company establishes a valuation allowance.

In assessing the need for a valuation allowance, the Company estimates future taxable earnings, with consideration for the feasibility of on-going tax planning strategies and the realizability of tax benefit carryforwards, to determine which deferred tax assets are more likely than not to be realized in the future. Valuation allowances related to deferred tax assets can be impacted by changes to tax laws, changes to statutory tax rates and future taxable earnings. In the event that actual results differ from these estimates in future periods, the Company may need to adjust the valuation allowance.

The Company recognizes a liability for uncertain tax positions that the Company has taken or expects to file in an income tax return. An uncertain tax position is recognized only if it is “more likely than not” that the position is sustainable based on its technical merit. A recognized tax benefit of a qualifying position is the largest amount of tax benefit that is greater than 50% likely of being realized upon settlement with a taxing authority having full knowledge of all relevant information.

The Company assesses foreign investment levels periodically to determine if all or a portion of the Company’s investments in foreign subsidiaries are indefinitely invested. If foreign investments are not expected to be indefinitely invested, the Company provides for income taxes on the portion that is not indefinitely invested.

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. Where a liability associated with these examinations and assessments is probable and can be reliably estimated, the Company has made accruals for these matters which are reflected in the Company’s Consolidated Financial Statements. Future

developments relating to the foregoing could result in adjustments being made to these accruals.

Results of Operations

(Amounts in millions, except per share data)

For fiscal years ended May 31,

	2013		2012		2011	
	$	% [1]	$	% [1]	$	% [1]
Revenues:						
Children's Book Publishing and Distribution	$846.9	47.2	$1,111.3	52.0	$922.0	49.1
Educational Technology and Services	227.7	12.7	254.7	11.9	230.8	12.3
Classroom and Supplemental Materials Publishing	218.0	12.2	208.2	9.7	197.2	10.5
Media, Licensing and Advertising	58.7	3.3	75.3	3.5	82.7	4.4
International	441.1	24.6	489.6	22.9	444.9	23.7
Total revenues	1,792.4	100.0	2,139.1	100.0	1,877.6	100.0
Cost of goods sold (exclusive of depreciation and amortization)	829.6	46.3	984.6	46.0	869.0	46.3
Selling, general and administrative expenses (exclusive of depreciation and amortization) [2]	815.0	45.5	878.5	41.1	834.7	44.5
Depreciation and amortization [3]	66.5	3.7	68.8	3.2	60.1	3.2
Severance [4]	13.4	0.7	14.9	0.7	6.7	0.4
Loss on leases and asset impairments [5]	0.0	0.0	7.0	0.3	3.4	0.2
Operating income	67.9	3.8	185.3	8.7	103.7	5.5
Other income (expense)	0.0	0.0	(0.1)	0.0	(0.4)	0.0
Interest income	1.2	0.1	1.0	0.1	1.5	0.1
Interest expense	(15.7)	(0.9)	(16.5)	(0.8)	(17.1)	(0.9)
Loss on investments [6]	—	—	—	—	(3.6)	(0.2)
Earnings (loss) from continuing operations before income taxes	53.4	3.0	169.7	8.0	84.1	4.5
Earnings (loss) from continuing operations	35.8	2.0	108.1	5.1	45.3	2.4
Earnings (loss) from discontinued operations, net of tax	(4.7)	(0.3)	(5.7)	(0.3)	(5.9)	(0.3)
Net income (loss)	$31.1	1.7	$102.4	4.8	$39.4	2.1
Earnings (loss) per share:						
Basic:						
Earnings (loss) from continuing operations	$1.12		$3.45		$1.36	
Earnings (loss) from discontinued operations	$(0.15)		$(0.18)		$(0.18)	

Net income (loss)	$0.97	$3.27	$1.18
Diluted:			
Earnings (loss) from continuing operations	$1.10	$3.39	$1.34
Earnings (loss) from discontinued operations	$(0.15)	$(0.18)	$(0.18)
Net income (loss)	$0.95	$3.21	$1.16

(1) Represents percentage of total revenues.

(2) In fiscal 2013, the Company recorded a pretax charge of $4.0 related to asset impairments. In fiscal 2012, the Company recorded a pretax charge of $1.3 for an impairment of a U.S.-based equity investment. In fiscal 2011, the Company recorded a pretax charge of $3.0 associated with restructuring in the UK.

(3) In fiscal 2012, the Company recorded a pretax charge of $4.9 for the impairment of intangible assets relating to certain publishing properties.

(4) In fiscal 2013, the Company recorded pretax severance expense of $9.6 as part of a cost savings initiative. In fiscal 2012, the Company recorded pretax severance expense of $9.3 for a voluntary retirement program.

(5) In fiscal 2012, the Company recorded a pretax impairment loss of $6.2 related to certain subleases in lower Manhattan. In fiscal 2011, the Company recorded a pretax impairment charge of $3.4 related to assets in the library publishing and classroom magazines business.

(6) In fiscal 2011, the Company recorded a pretax loss of $3.6 related to a UK-based cost-method investment.

Results of Operations – Consolidated

Revenues for fiscal 2013 decreased by $346.7 million, or 16.2%, to $1,792.4 million, compared to $2,139.1 million in fiscal 2012 due to lower revenues in the *Children's Book Publishing and Distribution* segment, the *Educational Technology and Services* segment, the *International* segment and the *Media, Licensing and Advertising* segment of $264.4 million, $27.0 million, $48.5 million and $16.6 million, respectively, while revenues increased $9.8 million in the *Classroom and Supplemental Materials Publishing* segment.

Revenues for fiscal 2012 increased by $261.5 million to $2,139.1 million, compared to $1,877.6 million in fiscal 2011. This increase was primarily related to increased revenues in the *Children's Book Publishing and Distribution* segment of $189.3 million, driven by higher sales in the Company's trade and school book fairs businesses; higher revenues in the *International* segment of $44.7 million; higher revenues in the *Educational Technology and Services* segment of $23.9 million relating to higher sales of educational technology products and related services; and higher revenues in the *Classroom and Supplemental Materials Publishing* segment of $11.0 million. The increase was partially offset by lower revenues in the *Media, Licensing and Advertising* segment of $7.4 million.

Cost of goods sold (exclusive of depreciation and amortization) as a percentage of revenue for fiscal 2013 remained relatively consistent at 46.3%, compared to 46.0% in the prior fiscal year. While cost of goods sold as a percentage of revenue remained consistent for the total Company, the *Children's Book Publishing and Distribution* segment experienced higher relative costs for free books and related fulfillment costs in the book clubs distribution channel and lower volumes in the Trade business, but these were largely offset by improvements in the book fairs business. In educational segments, higher service revenues in the *Educational Technology and Services* segment, which carry a higher relative cost, were offset by improved margins in the *Classroom and Supplemental Materials Publishing* segment due to increased circulation of classroom magazines.

Cost of goods sold (exclusive of depreciation and amortization) as a percentage of revenue for fiscal 2012 remained relatively consistent at 46.0%, compared to 46.3% in fiscal 2011. The increase in fiscal 2012 of $115.6 million to $984.6 million, compared to $869.0 million in fiscal 2011, was primarily related to the increase in revenues. In addition, in response to changing trends in the children's book market the Company changed its estimate for inventory obsolescence and recorded an increase in the reserve of $17.9 million. Product, service and production costs as well as royalty costs increased in fiscal 2012, primarily related to the higher revenues discussed above. Included in product, service and production costs is the $17.9 million of additional inventory obsolescence costs, as referenced above. Prepublication and production amortization for fiscal 2012 increased by $4.5 million, primarily related to an impairment recorded by the Company for one of its production properties. Postage, freight, shipping, fulfillment and all other costs increased slightly from fiscal 2011 to fiscal 2012; however, these costs decreased as a percentage of revenue by 1.4%, from 12.4% in fiscal 2011 to 11.0% in fiscal 2012.

Components of Cost of goods sold (exclusive of depreciation and amortization) for fiscal years 2013, 2012 and 2011 are as follows:

	($ amounts in millions)		
	2013	2012	2011
Product, service and production costs	$456.0	$536.2	$492.1
Royalty costs	90.7	157.4	93.3
Prepublication and production amortization	51.7	56.1	51.6
Postage, freight, shipping, fulfillment and all other costs	231.2	234.9	232.0
Total cost of goods sold (exclusive of depreciation and amortization)	$829.6	$984.6	$869.0

Selling, general and administrative expenses (exclusive of depreciation and amortization) in fiscal 2013 decreased by $63.5 million to $815.0 million, compared to $878.5 million in the prior fiscal year. The decrease was driven by lower sales tax accrual in two jurisdictions in the *Children's Book Publishing and Distribution* segment resulting from sales tax assessments of $19.7 million recorded in fiscal 2012, and the absence of employee bonuses and lower stock compensation expense in fiscal 2013.

Selling, general and administrative expenses for fiscal 2012 increased $43.8 million to $878.5 million, compared to $834.7 million in fiscal 2011. The increase was driven by higher employee-related costs associated with higher revenues and increased sales tax expenses, which included accruals of $19.7 million based on sales tax assessments in two jurisdictions, as well as higher continued digital initiative spending.

Severance expense of $13.4 million in fiscal 2013 includes $9.6 million related to cost reduction initiatives as the Company continues to focus on efficiency initiatives. Severance expense was $14.9 million in fiscal 2012, compared to $6.7 million in fiscal 2011, related to the Company's cost reduction programs, which included $9.3 million recorded in fiscal 2012 relating to a voluntary retirement program.

During fiscal 2012, the Company entered into sublease arrangements for certain leased properties in Manhattan. The fair value of the net rents to be received was less than the Company's lease commitments for these properties over the remaining term of the leases. Accordingly, the Company recognized a loss on these subleases of $6.2 million. The Company has substantially exited these leases as of May 31, 2013. In fiscal 2011, the Company determined the carrying value of its Scholastic Library Publishing and Classroom Magazines business within the *Classroom*

and Supplemental Materials Publishing segment exceeded the fair value of this reporting unit and recorded an impairment charge of $3.4 million.

For fiscal 2013, net interest expense decreased to $14.5 million, compared to $15.5 million in fiscal 2012, reflecting lower interest rates and borrowings. Net interest expense for fiscal 2012 was relatively flat to the fiscal 2011 net interest expense of $15.6 million.

In fiscal 2011, the Company recognized a $3.6 million loss on a UK-based cost method investment.

The Company's provision for income taxes with respect to continuing operations resulted in an effective tax rate of 33.0%, 36.3% and 46.1% for fiscal 2013, 2012 and 2011, respectively. The decrease in the effective tax rate for fiscal 2013 and 2012 was primarily due to the reversal of valuation allowances based on higher profitability in the UK and uncertain tax positions. These valuation allowances were established in fiscal 2011 and prior years.

Earnings from continuing operations for fiscal 2013 decreased by $72.3 million to $35.8 million, compared to $108.1 million in fiscal 2012. Earnings from continuing operations increased by $62.8 million to $108.1 million in fiscal 2012, compared to $45.3 million in fiscal 2011. The basic and diluted earnings from continuing operations per share of Class A Stock and Common Stock were $1.12 and $1.10, respectively, in fiscal 2013, $3.45 and $3.39, respectively, in fiscal 2012 and $1.36 and $1.34, respectively, in fiscal 2011.

Loss from discontinued operations, net of tax, for fiscal 2013 was $4.7 million, compared to $5.7 million for fiscal 2012. The loss in the current fiscal year was principally comprised of closure costs and asset impairments totaling $4.0 million. The loss in fiscal 2012 includes an impairment of the Company's Maumelle facility of $2.2 million, which was sold in fiscal 2013, and operational losses from the Company's discontinued Back to Basics business of $2.1 million. In addition, in fiscal 2012 the Company recognized a liability for the present value of future lease payments due on multiple leases in a discontinued UK business as the Company believes there is no opportunity for subleasing.

The resulting net income for fiscal 2013 was $31.1 million, or $0.97 and $0.95 per basic and diluted share, respectively, compared to net income of $102.4 million, or $3.27 and $3.21 per basic and diluted share, respectively, in fiscal 2012. Net income in fiscal 2011 was $39.4 million, or $1.18 and $1.16 per basic and diluted share, respectively.

Results of Operations – Segments

CHILDREN'S BOOK PUBLISHING AND DISTRIBUTION

($ amounts in millions)				2013 compared to 2012		2012 compared to 2011	
	2013	2012	2011	$ change	% change	$ change	% change
Revenues	$846.9	$1,111.3	$922.0	$(264.4)	-23.8 %	$189.3	20.5 %
Cost of goods sold (exclusive of depreciation and amortization)	359.4	466.7	396.0	(107.3)	-23.0 %	70.7	17.9 %
Other operating expenses *	446.5	471.8	433.1	(25.3)	-5.4 %	38.7	8.9 %
Depreciation and amortization	16.5	20.6	15.6	(4.1)	-19.9 %	5.0	32.1 %
Operating income (loss)	$24.5	$152.2	$77.3	$(127.7)	-83.9 %	$74.9	96.9 %
Operating margin	2.9 %	13.7 %	8.4 %				

* Other operating expenses include selling, general and administrative expenses, bad debt expenses and asset impairments where applicable.

Revenues for fiscal 2013 decreased by $264.4 million to $846.9 million, compared to $1,111.3 million in fiscal 2012. Lower net revenues in the Company's trade channel of $213.0 million reflected decreased sales of the Hunger Games trilogy compared to the trilogy's strong results in fiscal 2012. Revenues from the Company's book clubs channel declined $57.5 million, related to lower revenue per event and decreased sponsorship. These decreases were partially offset by an increase in the Company's book fair channel of $6.1 million over the prior fiscal year driven by modest increases in the number of fairs and revenue per fair.

Revenues for fiscal 2012 increased by $189.3 million to $1,111.3 million, compared to $922.0 million in fiscal 2011. Revenues from the Company's trade distribution channel increased by $206.3 million from fiscal 2012 to fiscal 2011, driven by increased sales, in both print and ebook formats, of the Hunger Games trilogy, as well as other titles. Revenues from school book fairs increased by $17.7 million in fiscal 2012 from fiscal 2011, related to both an increase in revenue per fair and an increase in the number of fairs held. Additionally, warehouse sales in fiscal 2012 increased as compared to fiscal 2011. Revenues from school book clubs in fiscal 2012 decreased by $34.7 million compared to fiscal 2011. During fiscal 2012, the number of book club sponsors declined modestly from fiscal 2011.

Cost of goods sold (exclusive of depreciation and amortization) for fiscal 2013 was $359.4 million, or 42.4% of revenues, compared to $466.7 million, or 42.0% of revenues, in fiscal 2012. The absolute decrease in cost of goods sold of $107.3 million is due predominantly to the lower

level of Hunger Games sales in fiscal 2013. Cost of goods sold as a percentage of revenue remained flat for this segment, with higher relative costs for free books and related fulfillment costs of $3.2 million in the book clubs distribution channel and lower volumes in the trade channel being offset by improved margins primarily from the book fairs channel, as well as book clubs, driven by lower inventory obsolescence in fiscal 2013.

Cost of goods sold (exclusive of depreciation and amortization) for fiscal 2011 was $396.0 million, or 43.0% of revenues. The absolute increase in cost of goods sold of $70.7 million from fiscal 2011 to fiscal 2012 is due to the increased level of *Hunger Games* sales and higher inventory obsolescence due to a change in estimated obsolescence. Cost of goods sold as a percentage of revenue remained relatively flat for this segment as increased inventory obsolescence in fiscal 2012 was offset by higher volume related margins in the trade channel.

Other operating expenses decreased by $25.3 million to $446.5 million in fiscal 2013, compared to $471.8 million in fiscal 2012. The decrease is primarily related to the prior fiscal year’s additional sales tax expense of $19.7 million relating to sales tax assessments in two jurisdictions in the Company’s book clubs channel, as well as the higher prior year employee-related expenses for incentive compensation, favorability in collections in the Company’s trade channel customer accounts in the current fiscal year, and higher amortization expense in the prior fiscal year for impairment of certain publishing and trademark rights of $4.9 million. These decreases were partially offset by higher promotional expense of $5.7 million in the book clubs channel in the current fiscal year.

Other operating expenses increased by $38.7 million to $471.8 million in fiscal 2012, compared to $433.1 million in fiscal 2011. Higher sales tax expense, driven by the $19.7 million attributable to two jurisdictions, higher employee-related expenses for incentive compensation and higher digital spending was partially offset by decreased promotional expense of $18.5 million in the book clubs channel in fiscal 2012 compared to fiscal 2011.

Segment operating income for fiscal 2013 decreased by $127.7 million to $24.5 million, compared to $152.2 million in the prior fiscal year. The prior fiscal year benefited from the success of the Hunger Games trilogy, while fiscal 2013 experienced strong results from the book fairs channel, offset by lower revenues and higher promotional expenses in the book clubs channel. Operating income from trade channel sales was lower compared to the prior year due to Hunger Games related revenues, but remained strong from titles such as The 39 Clues ® series and the Harry Potter series, as well as other titles, such as *Drama* by Raina Telgemeier, The Raven Boys by Maggie Stiefvater, and *Captain Underpants and the Revolting Revenge of the Radioactive Robo-Boxers* by Dav Pilkey. The Company is actively reducing promotional costs in book clubs channels by more precisely targeting its marketing resources. This segment continues to invest in its Storia ereading and ebook initiatives.

Segment operating income in fiscal 2012 increased by $74.9 million to $152.2 million, compared to $77.3 million in fiscal 2011, driven primarily by the higher revenues in the Company’s trade and school book fair channels, as well as by decreased promotional expenses in the Company’s school book clubs channel. These were partially offset by increased sales tax expense and increased expenses related to the Company’s continued investment in its digital initiatives, as well as higher employee incentive costs associated with higher revenue, increases in reserves for

obsolete inventory and the partial impairment of one of the Company’s publishing properties.

EDUCATIONAL TECHNOLOGY AND SERVICES

($ amounts in millions)				2013 compared to 2012		2012 compared to 2011	
	2013	2012	2011	$ change	% change	$ change	% change
Revenues	$227.7	$254.7	$230.8	$(27.0)	-10.6 %	$23.9	10.4 %
Cost of goods sold (exclusive of depreciation and amortization)	88.7	90.5	80.4	(1.8)	-2.0 %	10.1	12.6 %
Other operating expenses *	108.3	113.7	111.1	(5.4)	-4.7 %	2.6	2.3 %
Depreciation and amortization	1.2	1.3	1.3	(0.1)	-7.7 %	—	0.0 %
Operating income (loss)	$29.5	$49.2	$38.0	$(19.7)	-40.0 %	$11.2	29.5 %
Operating margin	13.0 %	19.3 %	16.5 %				

* Other operating expenses include selling, general and administrative expenses, bad debt expenses and asset impairments where applicable.

Revenues for the fiscal year ended May 31, 2013 decreased by $27.0 million, or 10.6%, to $227.7 million, compared to $254.7 million in the prior fiscal year, primarily related to decreased sales of curriculum educational technology products of $32.9 million, due to lower spending by school districts, as well as a significant sale of adoption product in Texas in the prior fiscal year. In addition, the prior fiscal year benefited from higher revenues related to the launch of *READ 180* ® Next Generation. The decrease was partially offset by higher revenues of $7.8 million for products and services provided by the Math Solutions business and by the consulting business associated with training for the Common Core State Standards, as the Company meets the increased demand for such services.

In fiscal 2012, segment revenues increased by $23.9 million to $254.7 million, compared to $230.8 million in fiscal 2011, driven by higher sales of educational technology products and related services, including *Read 180 Next Generation* products and services, which was launched late in fiscal 2011.

Cost of goods sold (exclusive of depreciation and amortization) decreased to $88.7 million, or 39.0% of revenues, in fiscal 2013, compared to $90.5 million, or 35.5% of revenues, for fiscal 2012. The increase in Cost of goods sold as a percentage of revenue was primarily due to a shift in revenues from higher margin product sales to lower margin service revenues. The Company’s service revenues as a percentage of total *Educational Technology and Services*

revenue was 37.8% for fiscal 2013, compared to 31.4% for fiscal 2012. Fiscal 2013 includes accelerated prepublication costs of $2.0 million, while fiscal 2012 includes accelerated amortization of $0.8 million.

Cost of goods sold (exclusive of depreciation and amortization) increased $10.1 million to $90.5 million in fiscal 2012, compared to $80.4 million in fiscal 2011. Cost of goods sold as a percentage of sales of 34.8% in fiscal 2011 remained relatively consistent in 2012, as the Company’s cost structure did not vary.

Other operating expenses for fiscal 2013 decreased by $5.4 million to $108.3 million, compared to $113.7 million in the prior fiscal year. The decrease was partially related to lower commission expense of $2.4 million, resulting from the lower revenue, as well as higher incentive compensation costs in the prior fiscal year period.

Other operating expenses for fiscal 2012 increased by $2.6 million to $113.7 million, compared to $111.1 million in fiscal 2011. The modest increase was related to incentive compensation costs.

Segment operating income for fiscal 2013 decreased by $19.7 million, or 40.0%, to $29.5 million, compared to $49.2 million in the prior fiscal year period. This segment benefited in the prior year from the launch of *READ 180* Next Generation, and did not have similar product launches in fiscal 2013. The segment has made significant investments and plans new product launches in fiscal 2014, including *System 44* ® Next Generation, *MATH 180*™, iRead™, *Common Core Code X*™ and *Read 180* for iPad®. These new products assist educators in the implementation of Common Core State Standards and in incorporating more technology and mobile solutions in the classroom.

In fiscal 2012, segment operating income increased by $11.2 million to $49.2 million, compared to $38.0 million in the prior fiscal year, related to the higher revenues, partially offset by increased employee-related expenses and incentive compensation in the segment.

CLASSROOM AND SUPPLEMENTAL MATERIALS PUBLISHING

($ amounts in millions)				2013 compared to 2012		2012 compared to 2011	
	2013	2012	2011	$ change	% change	$ change	% change
Revenues	$218.0	$208.2	$197.2	$9.8	4.7 %	$11.0	5.6 %
Cost of goods sold (exclusive of depreciation and amortization)	83.9	86.2	79.8	(2.3)	-2.7 %	6.4	8.0 %
Other operating expenses *	103.1	102.7	102.5	0.4	0.4 %	0.2	0.2 %
Depreciation and amortization	1.4	1.0	1.3	0.4	40.0 %	(0.3)	-23.1 %
Operating income (loss)	$29.6	$18.3	$13.6	$11.3	61.7 %	$4.7	34.6 %
Operating margin	13.6 %	8.8 %	6.9 %				

* Other operating expenses include selling, general and administrative expenses, bad debt expenses and asset impairments where applicable.

Revenues for fiscal 2013 increased by $9.8 million, or 4.7%, to $218.0 million, compared to $208.2 million in the prior fiscal year. This increase was due to higher revenues from sales of classroom magazines of $16.8 million. Circulation improved in the classroom magazines business, as the Company experienced increased demand for non-fiction content to meet the requirements of the Common Core State Standards, as well as strong interest for digital magazine content. Partially offsetting this increase were decreased sales of classroom libraries.

In fiscal 2012, segment revenues increased by $11.0 million to $208.2 million, compared to $197.2 million in fiscal 2011, driven by higher revenues in the Company’s classroom magazines business related to the Company’s acquisition of *Weekly Reader*, which was fully integrated for fiscal year 2013, and improvements in all other segment channels.

Cost of goods sold (exclusive of depreciation and amortization) for the fiscal year ended May 31, 2013 was $83.9 million, or 38.5% of revenue, compared to $86.2 million, or 41.4% of revenue, in fiscal 2012. The absolute decrease in Cost of goods sold was the result of lower sales volume of classroom libraries. The improvement as a percentage of sales is the result of higher circulation in the classroom magazines business, as much of the content cost in this business is fixed and does not vary with increased circulation.

Cost of goods sold (exclusive of depreciation and amortization) as a percentage of revenue remained consistent at approximately 41% in fiscal 2012 from fiscal 2011.

Other operating expenses for fiscal 2013 were relatively consistent at $103.1 million, compared to $102.7 million in fiscal 2012 and $102.5 million in fiscal 2011. Fiscal 2011 incurred an impairment charge of $3.4 million and experienced lower employee-related expenses than the two most recent fiscal years.

Segment operating income for fiscal 2013 improved significantly to $29.6 million, compared to $18.3 million in fiscal 2012. The above noted growth in the classroom magazines business led the improvement. The Company views this segment as a strategic component of both its digital initiatives and meeting Common Core State Standards. In the current year, the Company began providing customized classroom curriculum and teaching guides, broadening the offering to classrooms.

In fiscal 2012, segment operating income increased by $4.7 million to $18.3 million, compared to $13.6 million in the prior fiscal year, related to the higher revenues in the Company’s library publishing business, as well as an impairment charge of $3.4 million in fiscal 2011.

MEDIA, LICENSING AND ADVERTISING

($ amounts in millions)				2013 compared to 2012		2012 compared to 2011	
	2013	2012	2011	$ change	% change	$ change	% change
Revenues	$58.7	$75.3	$82.7	$(16.6)	-22.0 %	$(7.4)	-8.9 %
Cost of goods sold (exclusive of depreciation and amortization)	22.0	40.6	35.9	(18.6)	-45.8 %	4.7	13.1 %
Other operating expenses *	31.5	39.1	42.6	(7.6)	-19.4 %	(3.5)	-8.2 %
Depreciation and amortization	0.5	0.5	0.7	—	0.0 %	(0.2)	-28.6 %
Operating income (loss)	$4.7	$(4.9)	$3.5	$9.6	**	$(8.4)	**
Operating margin	8.0 %	-6.5 %	4.2 %				

* Other operating expenses include selling, general and administrative expenses, bad debt expenses and asset impairments where applicable.

** Not meaningful

Revenues for fiscal 2013 decreased by $16.6 million to $58.7 million, compared to $75.3 million in the prior fiscal year. This decrease was primarily related to the absence of $9.9 million of revenues from sales of console games, as the Company has reduced its focus on interactive products. Lower production revenues of $6.1 million, principally of *Word Girl* ®, and lower advertising and consumer magazine revenues of $1.3 million also contributed to the decline. Partially offsetting these declines were increased sales of audio books of $2.0 million.

In fiscal 2012, segment revenues declined by $7.4 million to $75.3 million, compared to $82.7 million in fiscal 2011, driven by anticipated lower revenues in the Company's custom publishing and magazine advertising businesses of $10.5 million, partially offset by increased revenues in the Company's interactive business of $4.9 million.

Cost of goods sold (exclusive of depreciation and amortization) was $22.0 million, or 37.5% of revenue, for fiscal 2013, compared to $40.6 million, or 53.9% of revenue, for the prior fiscal year. The improvement as a percentage of

revenue was driven by the reduced focus on low-margin console game sales. Contributing to the improvement was the prior year acceleration of amortization on certain owned properties. Cost of goods sold was $35.9 million in fiscal 2011, or 43.4% of revenue. The increase from fiscal 2011 to fiscal 2012 is attributable to the accelerated amortization for certain owned properties of $4.0 million in fiscal 2012.

Other operating expenses for fiscal 2013 decreased by $7.6 million to $31.5 million, compared to $39.1 million in the prior fiscal year period. The decrease is related to settlement income received of $1.3 million, as well as lower promotional, employee and other operating expenses in the Company’s consumer magazine business and Scholastic Entertainment, Inc.

Segment operating income for fiscal 2013 was $4.7 million, compared to a loss of $4.9 million in the prior fiscal year. The absence of the above noted accelerated amortization in the production business, the success of the audio books business and the return of the consumer magazines business to a profitable position were responsible for the improvements in fiscal 2013. The Company continues to decrease its reliance on low- margin console products and is focusing its efforts on repurposing content for digital platforms.

In fiscal 2012, the segment had an operating loss of $4.9 million, compared to operating income of $3.5 million in fiscal 2011, yielding a reduction in profitability of $8.4 million, primarily related to the lower revenues, as well as accelerated amortization of one of the Company’s production properties.

INTERNATIONAL

($ amounts in millions)				2013 compared to 2012		2012 compared to 2011	
	2013	2012	2011	$ change	% change	$ change	% change
Revenues	$441.1	$489.6	$444.9	$(48.5)	-9.9 %	$44.7	10.0 %
Cost of goods sold (exclusive of depreciation and amortization)	213.6	242.5	221.5	(28.9)	-11.9 %	21.0	9.5 %
Other operating expenses *	182.4	183.1	179.5	(0.7)	-0.4 %	3.6	2.0 %
Depreciation and amortization	5.3	6.4	5.6	(1.1)	-17.2 %	0.8	14.3 %
Operating income (loss)	$39.8	$57.6	$38.3	$(17.8)	-30.9 %	$19.3	50.4 %
Operating margin	9.0 %	11.8 %	8.6 %				

* Other operating expenses include selling, general and administrative expenses, bad debt expenses and asset impairments where applicable.

Revenues for fiscal 2013 decreased by $48.5 million to $441.1 million, compared to $489.6 million in the prior fiscal year. This decrease was primarily related to lower revenues in Canada of $27.4 million, primarily in the trade and book clubs channels, as well as lower revenues in Australia of $13.4 million, primarily in the new media and trade businesses. In both cases, the lower revenues in the trade channel resulted from lower sales of the *Hunger Games* trilogy, as well as the negative impact of foreign currency exchange rates of $3.9 million, all of which were partially offset by higher revenues in the Company’s export business of $2.0 million and increases in the Company’s businesses in Asia of $2.8 million, where the Company is focused on educational products.

In fiscal 2012, segment revenues increased by $44.7 million to $489.6 million, compared to $444.9 million in fiscal 2011. The increase was primarily related to increased revenues in the Company’s UK, Canada and Australia operations, which benefitted from sales of the *Hunger Games* trilogy and other trade titles, as well as a favorable impact of foreign currency exchange rates, principally in Australia, of $9.2 million.

Cost of goods sold (exclusive of depreciation and amortization) decreased to $213.6 million in fiscal 2013 from $242.5 million in fiscal 2012, but remained relatively consistent at 48.4% as a percentage of revenue, compared to 49.5% of revenue in fiscal 2012. Cost of goods sold in fiscal 2011 equaled 49.8% of revenue, higher than fiscal 2012

due to improved costs in the Company’s UK operations in fiscal 2012.

Other operating expenses decreased slightly to $182.4 million in fiscal 2013 from $183.1 million in fiscal 2012. Other operating expenses for fiscal 2012 increased by $3.6 million, from $179.5 million in fiscal 2011.

Segment operating income for fiscal 2013 decreased by $17.8 million to $39.8 million, compared to $57.6 million in the prior fiscal year period. The decrease is primarily due to unfavorable results in the Company’s Australia and Canada operations of $5.4 million and $5.6 million, respectively, and a $1.1 million decrease in its operating income in Asia. Lower results in Asia reflect the Company’s continuing investment in English language educational businesses, which it views as a future growth driver.

Segment operating income in fiscal 2012 increased by $19.3 million to $57.6 million, compared to $38.3 million in fiscal 2011, driven primarily by the higher revenues discussed above.

Overhead

Corporate overhead for fiscal 2013 decreased by $26.9 million to $60.2 million, compared to $87.1 million in the prior fiscal year. The decrease was primarily related to lower employee-related expenses and incentive compensation in fiscal 2013 compared to the prior year. Fiscal 2011 unallocated overhead was $67.0 million. The increase from fiscal 2011 to fiscal 2012 was due to higher employee-related compensation expenses and the impairment loss related to certain subleases in lower Manhattan.

Liquidity and Capital Resources

The Company's cash and cash equivalents totaled $87.4 million at May 31, 2013, $194.9 million at May 31, 2012 and $105.3 million at May 31, 2011.

Fiscal 2013 compared to fiscal 2012

Cash provided by operating activities was $189.1 million for fiscal 2013, compared to $260.2 million for fiscal 2012, representing a decrease in cash provided by operating activities of $71.1 million. The key driver of the decrease was the lower operating profitability of $71.3 million, driven by the prior year's strong Hunger Games sales. Working capital balances shifted, but the net impact from changes in the total working capital was modest, as collections of receivables in fiscal 2013 were offset by royalty payments and higher payments of employee bonuses of $31.4 million in fiscal 2013 related to fiscal 2012 performance.

Cash used in investing activities was $124.0 million for fiscal 2013, compared to $121.3 million in the prior fiscal year. The Company has continued to invest in its ongoing digital and information technology initiatives and upgraded its fleet of vehicles in the book fairs business as well as invested in product development in the *Educational Technology and Services* segment. In fiscal 2013, the Company sold a vacant facility in Maumelle, Arkansas, receiving $5.0 million in cash, while in the prior year the Company made strategic acquisitions totaling $9.5 million in cash expenditures.

Cash used in financing activities was $172.7 million for fiscal 2013, compared to $47.4 million for the prior fiscal year. In fiscal 2013, the Company's 5% Notes due April 2013 matured and were fully repaid for $153.0 million. In fiscal 2012, the Company paid $50.2 million in scheduled payments on the 5% Notes. Dividend payouts increased by $2.7 million, as the Company implemented a higher per share dividend rate. Contributing to the higher use of cash were lower net borrowings under lines of credit of $12.9 million and a decrease in proceeds pursuant to stock-based compensation plans of $8.5 million in fiscal 2013 compared to the prior fiscal year.

Fiscal 2012 compared to fiscal 2011

Cash provided by operating activities was $260.2 million for fiscal 2012, an increase of $31.8 million, compared to $228.4 million for fiscal 2011. This increase was primarily driven by the increase in net income from continuing operations, adding back the effect of non-cash charges of $61.2 million. The earnings, and related operating cash flows, were driven by sales of the Hunger Games and *READ 180*. Most of the receivables from the Hunger Games sales were realized in fiscal 2012, while related royalty payments were made in fiscal 2013.

Cash used in investing activities for fiscal 2012 decreased by $19.8 million to $121.3 million, compared to cash used in investing activities of $141.1 million for fiscal 2011. This decrease was primarily due to the $24.3 million purchase, in fiscal 2011, of the land on which the Company's corporate headquarters are located.

Cash used in financing activities in fiscal 2012 decreased by $183.1 million to $47.4 million, compared to cash used in financing activities in fiscal 2011 of $230.5 million. The change was primarily due to the completion of a large share repurchase pursuant to a modified Dutch auction tender offer in fiscal 2011. In addition, the Company had higher proceeds related to stock-based compensation plans, as well as lower debt pay downs, in fiscal 2012.

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

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

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 May 31, 2013, the Company's primary sources of liquidity consisted of cash and cash equivalents of $87.4 million, cash from operations and funding available under the Revolving Loan (as described under "Financing" below) totaling $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). Accordingly, the Company believes these sources of liquidity are sufficient to finance its ongoing operating needs, as well as its financing and investing activities.

Effective December 5, 2012, as discussed below under the caption "Financing", the Company amended its existing revolving credit facility, which was scheduled to mature on June 1, 2014, to extend the maturity date to December 5, 2017.

The following table summarizes, as of May 31, 2013, the Company's contractual cash obligations by future period (see Notes 5, 6 and 12 of Notes to Consolidated Financial Statements in Item 8, "Consolidated Financial Statements and Supplementary Data"):

				$ amounts in millions	
	Payments Due By Period				
Contractual Obligations	1 Year or Less	Years 2-3	Years 4-5	After Year 5	Total
Minimum print quantities	$58.8	$107.2	$97.5	$100.7	$364.2
Royalty advances	10.7	4.8	1.6	—	17.1
Lines of credit and short-term debt	2.0	—	—	—	2.0
Capital leases (1)	5.4	10.3	12.0	179.1	206.8
Pension and post-retirement plans (2)	22.0	28.9	27.3	64.3	142.5
Operating leases	34.6	54.8	33.3	41.8	164.5
Total	$133.5	$206.0	$171.7	$385.9	$897.1

(1) Includes principal and interest.

(2) Excludes expected Medicare Part D subsidy receipts.

Financing

Loan Agreement

On June 1, 2007, Scholastic Corporation and Scholastic Inc. (each, a "Borrower" and together, the "Borrowers") entered into a $525.0 million credit facility with certain banks (the "Loan Agreement"), consisting of a $325.0 million revolving credit component (the "Revolving Loan") and a $200.0 million amortizing term loan component (the "Term Loan"). The Loan Agreement was amended on August 16, 2010, on October 25, 2011, and most recently on December 5, 2012. The amendment on December 5, 2012 served to, among other things, (i) increase the Revolving Loan from $325.0 million to $425.0 million (with the continued ability to increase the aggregate Revolving Loan commitments of the lenders by up to an additional $150.0 million), (ii) extend the maturity of the $425.0 million Revolving Loan to December 5, 2017 from June 1, 2014, (iii) amend a covenant in the Loan Agreement to permit certain sales, transfers and dispositions of assets by either Borrower or any subsidiary to any other Borrower or subsidiary and (iv) amend a covenant in the Loan Agreement to permit transactions between or among the Company and its wholly-owned subsidiaries not involving any other affiliates. Additionally, this amendment added certain lenders to the Loan Agreement and other lenders exited the Loan Agreement with no further obligation.

The Revolving Loan allows the Company to borrow, repay or prepay and reborrow at any time prior to the maturity date, and the proceeds may be used for general corporate purposes, including financing for acquisitions and share repurchases. On April 15, 2013, the Company drew on the Revolving Loan to fully repay the 5% Notes due April 2013.

Interest on the Revolving Loan is due and payable in arrears on the last day of the interest period (defined as the period commencing on the date of the advance and ending on the last day of the period selected by the Borrower at the time each advance is made). The interest pricing under the Revolving Loan 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 May 31, 2013, 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 May 31, 2013, the facility fee rate was 0.20%. There were no outstanding borrowings under the Revolving Loan as of May 31, 2013 and May 31, 2012.

As of May 31, 2013, standby letters of credit outstanding under the Loan Agreement totaled $1.4 million. 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 May 31, 2013, the Company was in compliance with these covenants.

Lines of Credit

The Company has unsecured money market bid rate credit lines, with available borrowings of $14.8 million. There were no outstanding borrowings under these credit lines at May 31, 2013 and May 31, 2012. 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 sole option of the lender.

As of May 31, 2013, the Company also had various local currency credit lines, with maximum available borrowings in amounts equivalent to $27.0 million, underwritten by banks primarily in the United States, Canada and the United Kingdom. These credit lines are typically available for overdraft borrowings or loans up to 364 days and may be renewed, if requested by the Company, at the sole option of the lender. There were borrowings outstanding under these facilities equivalent to $2.0 million at May 31, 2013 at a weighted average interest rate of 9.0%, compared to borrowings equivalent to $6.5 million at May 31, 2012 at a weighted average interest rate of 5.3%.

5% Notes due 2013

In April 2003, Scholastic Corporation issued $175.0 million of 5% Notes due April 2013 (the “5% Notes”). The 5% Notes were senior unsecured obligations that matured on April 15, 2013. Interest on the 5% Notes was payable semi-annually on April 15 and October 15 of each year through maturity.

As discussed above, the Company amended its existing revolving credit facility, which was scheduled to mature on June 1, 2014, to extend the maturity date of the Revolving Loan to December 5, 2017. On April 15, 2013, the Company drew on the Revolving Loan to satisfy its obligations to fully repay the 5% Notes. As of May 31, 2013, the Company had fully paid down the Revolving Loan.

At May 31, 2013 and May 31, 2012, the Company had open standby letters of credit totaling $6.6 million issued under certain credit lines, including the $1.4 million under the Loan Agreement discussed above. These letters of credit are scheduled to expire within one year; however, the Company expects that substantially all of these letters of credit will be renewed, at similar terms, prior to expiration.

The Company’s total debt obligations were $2.0 million at May 31, 2013 and $159.3 million at May 31, 2012.

For a more complete description of the Company's debt obligations, see Note 5 of Notes to Consolidated Financial Statements in Item 8, "Consolidated Financial Statements and Supplementary Data."

Acquisitions

In the ordinary course of business, the Company explores domestic and international expansion opportunities, including potential niche and strategic acquisitions. As part of this process, the Company engages with interested parties in discussions concerning possible transactions. On January 3, 2012, the Company acquired Learners Publishing, a Singapore-based publisher of supplemental learning materials for English-Language Learners. The Company has integrated this business into its *International* segment. On February 8, 2012, the Company acquired the business and certain assets of Weekly Reader, a publisher of weekly educational classroom magazines designed for children in grades pre-K – 12. The Company has fully integrated this business in its *Classroom and Supplemental Materials Publishing* segment (see Note 2 of Notes to Consolidated Financial Statements in Item 8, "Consolidated Financial Statements and Supplementary Data"). The Company will continue to evaluate such expansion opportunities and prospects.

Item 7A | 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 product 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 May 31, 2013. The Company does not enter into derivative transactions or use other financial instruments for trading or speculative purposes.

Additional information relating to the Company's outstanding financial instruments is included in Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations."

The following table sets forth information about the Company's debt instruments as of May 31, 2013 (see Note 5 of Notes to Consolidated Financial Statements in Item 8, "Consolidated Financial Statements and Supplementary Data"):

						$ amounts in millions	
	Fiscal Year Maturity						Fair Value
	2014	2015	2016	2017	Thereafter	Total	2013
Debt Obligations							
Lines of credit and short-term debt	$2.0	$ —	$ —	$ —	$ —	$2.0	$ 2.0
Average interest rate	9.0%	—	—	—	—		

Item 8 | Consolidated Financial Statements and Supplementary Data

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The following consolidated financial statement schedule for the years ended May 31, 2013, 2012 and 2011 is filed with this annual report on Form 10-K:

Schedule II — Valuation and Qualifying Accounts and Reserves	S-2

All other schedules have been omitted since the required information is not present or is not present in amounts sufficient to require submission of the schedule, or because the information required is included in the Consolidated Financial Statements or the Notes thereto.

Consolidated Statements of Operations

	(Amounts in millions, except per share data) For fiscal years ended May 31,		
	2013	2012	2011
Revenues	$1,792.4	$2,139.1	$1,877.6
Operating costs and expenses:			
Cost of goods sold (exclusive of depreciation and amortization)	829.6	984.6	869.0
Selling, general and administrative expenses	815.0	878.5	834.7
Depreciation and amortization	66.5	68.8	60.1
Severance	13.4	14.9	6.7
Loss on leases and asset impairments	0.0	7.0	3.4
Total operating costs and expenses	1,724.5	1,953.8	1,773.9
Operating income	67.9	185.3	103.7
Other income (expense)	0.0	(0.1)	(0.4)
Interest income	1.2	1.0	1.5
Interest expense	(15.7)	(16.5)	(17.1)
Loss on investments	—	—	(3.6)
Earnings (loss) from continuing operations before income taxes	53.4	169.7	84.1
Provision for income taxes	17.6	61.6	38.8
Earnings (loss) from continuing operations	35.8	108.1	45.3
Earnings (loss) from discontinued operations, net of tax	(4.7)	(5.7)	(5.9)
Net income (loss)	$31.1	$102.4	$39.4
Basic and diluted earnings (loss) per share of Class A and Common Stock			
Basic:			
Earnings (loss) from continuing operations	$1.12	$3.45	$1.36
Earnings (loss) from discontinued operations	$(0.15)	$(0.18)	$(0.18)
Net income (loss)	$0.97	$3.27	$1.18
Diluted:			
Earnings (loss) from continuing operations	$1.10	$3.39	$1.34
Earnings (loss) from discontinued operations	$(0.15)	$(0.18)	$(0.18)
Net income (loss)	$0.95	$3.21	$1.16

Dividends declared per common share	$0.50	$0.45	$0.35

See accompanying notes

Consolidated Statements of Comprehensive Income (Loss)

	(Amounts in millions, except per share data) For fiscal years ended May 31,		
	2013	2012	2011
Net income (loss)	$31.1	$102.4	$39.4
Other comprehensive income (loss), net:			
Foreign currency translation adjustments	(2.6)	(8.2)	25.2
Pension and post-retirement adjustments:			
Amortization of prior service credit	(0.4)	(0.6)	(0.7)
Amortization of unrecognized gains and losses included in net periodic cost	11.8	(11.5)	7.0
Total other comprehensive income (loss)	$8.8	$(20.3)	$31.5
Comprehensive income (loss)	$39.9	$82.1	$70.9

See accompanying notes

Consolidated Balance Sheets

	(Amounts in millions, except share data) Balances at May 31,	
ASSETS	2013	2012
Current Assets:		
Cash and cash equivalents	$ 87.4	$ 194.9
Accounts receivable (less allowance for doubtful accounts of $19.3 at May 31, 2013 and $25.9 at May 31, 2012)	214.9	313.9
Inventories	278.1	295.3
Deferred income taxes	79.2	71.4
Prepaid expenses and other current assets	61.2	46.8
Current assets of discontinued operations	0.4	7.7
Total current assets	721.2	930.0
Property, Plant and Equipment		
Land	37.3	37.2
Buildings	100.7	101.3
Capitalized software	239.9	217.9
Furniture, fixtures and equipment	241.4	243.8
Leasehold improvements	172.4	183.4
	791.7	783.6
Less accumulated depreciation and amortization	(480.1)	(456.4)
Net property, plant and equipment	311.6	327.2
Other Assets and Deferred Charges:		
Prepublication costs	147.3	125.7
Royalty advances (less allowance for reserves of $81.5 at May 31, 2013 and $77.8 at May 31, 2012)	37.0	34.8
Production costs	1.7	1.6
Goodwill	157.9	157.7
Other intangibles	14.6	16.7
Noncurrent deferred income taxes	14.9	42.3
Other assets and deferred charges	34.8	34.3

Total other assets and deferred charges	408.2	413.1
Total assets	$1,441.0	$1,670.3

See accompanying notes

LIABILITIES AND STOCKHOLDERS' EQUITY	(Amounts in millions, except share data) Balances at May 31, 2013	2012
Current Liabilities:		
Lines of credit and current portion of long-term debt	$2.0	$6.5
Capital lease obligations	0.2	1.0
Accounts payable	156.2	119.6
Accrued royalties	34.4	92.7
Deferred revenue	48.1	47.1
Other accrued expenses	179.5	233.5
Current liabilities of discontinued operations	1.3	2.1
Total current liabilities	421.7	502.5
Noncurrent Liabilities:		
Long-term debt	—	152.8
Capital lease obligations	57.5	56.4
Other noncurrent liabilities	97.4	128.3
Total noncurrent liabilities	154.9	337.5
Commitments and Contingencies:	—	—
Stockholders' Equity:		
Preferred Stock, $1.00 par value Authorized - 2,000,000; Issued - None	—	—
Class A Stock, $.01 par value Authorized - 4,000,000; Issued and Outstanding - 1,656,200 shares	0.0	0.0
Common Stock, $.01 par value Authorized - 70,000,000; Issued - 42,911,624 shares ; Outstanding - 30,105,479 shares (42,911,624 shares issued and 29,795,911 shares outstanding at May 31, 2012)	0.4	0.4
Additional paid-in capital	582.9	583.0
Accumulated other comprehensive income (loss)	(65.4)	(74.2)
Retained earnings	738.9	723.9
Treasury stock at cost	(392.4)	(402.8)
Total stockholders' equity	864.4	830.3
Total liabilities and stockholders' equity	$1,441.0	$1,670.3

See accompanying notes

Consolidated Statement of Changes in Stockholders' Equity and Comprehensive Income (Loss)

	(Amounts in millions, except share data)				
	Class A Stock		Common Stock		Additional Paid-in Capital
	Shares	Amount	Shares	Amount	
Balance at May 31, 2010	1,656,200	$ 0.0	34,598,258	$ 0.4	$ 569.2
Net Income (loss)	—	—	—	—	—
Foreign currency translation adjustment	—	—	—	—	—
Pension and postretirement adjustments (net of tax of $4.0)	—	—	—	—	—
Stock-based compensation	—	—	—	—	13.7
Proceeds from issuance of common stock pursuant to stock-based compensation plans	—	—	104,100	—	2.9
Purchases of treasury stock at cost	—	—	(5,588,125)	—	—
Treasury stock issued pursuant to stock purchase plans	—	—	202,458	—	(9.2)
Dividends	—	—	—	—	—
Balance at May 31, 2011	1,656,200	$ 0.0	29,316,691	$ 0.4	$ 576.6
Net Income (loss)	—	—	—	—	—
Foreign currency translation adjustment	—	—	—	—	—
Pension and postretirement adjustments (net of tax of $(6.5))	—	—	—	—	—
Stock-based compensation	—	—	—	—	12.2
Proceeds from issuance of common stock pursuant to stock-based compensation plans	—	—	724,613	—	22.4
Purchases of treasury stock at cost	—	—	(475,672)	—	—
Treasury stock issued pursuant to stock purchase plans	—	—	230,279	—	(28.2)
Dividends	—	—	—	—	—
Balance at May 31, 2012	1,656,200	$ 0.0	29,795,911	$ 0.4	$ 583.0
Net Income (loss)	—	—	—	—	—
Foreign currency translation adjustment	—	—	—	—	—
Pension and postretirement adjustments (net of tax of $8.4)	—	—	—	—	—
Stock-based compensation	—	—	—	—	7.3
Proceeds from issuance of common stock pursuant to stock-based compensation plans	—	—	507,197	—	14.7
Purchases of treasury stock at cost	—	—	(432,330)	—	—
Treasury stock issued pursuant to stock purchase plans	—	—	234,701	—	(22.1)
Dividends	—	—	—	—	—
Balance at May 31, 2013	1,656,200	$ 0.0	30,105,479	$ 0.4	$ 582.9

See accompanying notes

	Accumulated Other Comprehensive Income (Loss)	Retained Earnings	Treasury Stock At Cost	Total Stockholders' Equity
Balance at May 31, 2010	$ (85.4)	$ 607.8	$ (261.6)	$ 830.4
Net Income (loss)	—	39.4	—	39.4
Foreign currency translation adjustment	25.2	—	—	25.2
Pension and postretirement adjustments (net of tax of $4.0)	6.3	—	—	6.3
Stock-based compensation	—	—	—	13.7
Proceeds from issuance of common stock pursuant to stock-based compensation plans	—	—	—	2.9
Purchases of treasury stock at cost	—	—	(166.9)	(166.9)
Treasury stock issued pursuant to stock purchase plans	—	—	9.6	0.4
Dividends	—	(11.4)	—	(11.4)
Balance at May 31, 2011	$ (53.9)	$ 635.8	$ (418.9)	$ 740.0
Net Income (loss)	—	102.4	—	102.4
Foreign currency translation adjustment	(8.2)	—	—	(8.2)
Pension and postretirement adjustments (net of tax of $(6.5))	(12.1)	—	—	(12.1)
Stock-based compensation	—	—	—	12.2
Proceeds from issuance of common stock pursuant to stock-based compensation plans	—	—	—	22.4
Purchases of treasury stock at cost	—	—	(13.1)	(13.1)
Treasury stock issued pursuant to stock purchase plans	—	—	29.2	1.0
Dividends	—	(14.3)	—	(14.3)
Balance at May 31, 2012	$ (74.2)	$ 723.9	$ (402.8)	$ 830.3
Net Income (loss)	—	31.1	—	31.1
Foreign currency translation adjustment	(2.6)	—	—	(2.6)
Pension and postretirement adjustments (net of tax of $8.4)	11.4	—	—	11.4
Stock-based compensation	—	—	—	7.3
Proceeds from issuance of common stock pursuant to stock-based compensation plans	—	—	—	14.7
Purchases of treasury stock at cost	—	—	(11.8)	(11.8)
Treasury stock issued pursuant to stock purchase plans	—	—	22.2	0.1
Dividends	—	(16.1)	—	(16.1)
Balance at May 31, 2013	$ (65.4)	$ 738.9	$ (392.4)	$ 864.4

See accompanying notes

Consolidated Statements of Cash Flows

	(Amounts in millions) Years ended May 31,		
	2013	2012	2011
Cash flows - operating activities:			
Net income (loss)	$31.1	$102.4	$39.4
Earnings (loss) from discontinued operations, net of tax	(4.7)	(5.7)	(5.9)
Earnings (loss) from continuing operations	35.8	108.1	45.3
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	6.8	12.3	13.6
Provision for losses on inventory	27.2	48.1	27.3
Provision for losses on royalty advances	4.7	6.5	4.5
Loss on subleases	—	6.2	—
Amortization of prepublication and production costs	48.9	55.1	51.1
Depreciation and amortization	68.6	68.8	60.1
Deferred income taxes	19.6	(37.5)	(2.8)
Stock-based compensation	6.3	12.2	13.7
Non cash net gain on equity investments	(2.3)	(1.3)	(1.7)
Non cash write off related to asset impairment	7.2	0.8	3.4
Unrealized loss on investments	—	—	3.6
Changes in assets and liabilities, net of amounts acquired:			
Accounts receivable	94.4	(108.7)	(12.6)
Inventories	(9.9)	(40.4)	(9.8)
Prepaid expenses and other current assets	(14.2)	10.1	0.6
Deferred promotion costs	0.3	—	0.1
Royalty advances	(7.0)	(6.2)	(1.2)
Accounts payable	35.6	(0.3)	19.1
Other accrued expenses	(53.4)	64.7	15.9
Accrued royalties	(58.5)	58.2	(8.3)
Deferred revenue	1.1	(1.7)	8.7
Pension and post-retirement liabilities	(16.0)	(7.0)	(11.3)
Other noncurrent liabilities	(3.6)	5.9	5.6
Other, net	0.4	7.8	7.1
Total adjustments	156.2	153.6	186.7
Net cash provided by (used in) operating activities of continuing operations	192.0	261.7	232.0
Net cash provided by (used in) operating activities of discontinued operations	(2.9)	(1.5)	(3.6)

Net cash provided by (used in) operating activities	189.1	260.2	228.4
Cash flows - investing activities:			
Prepublication and production expenditures	(73.8)	(58.8)	(57.9)
Additions to property, plant and equipment	(54.6)	(53.7)	(50.0)
Acquisition related payments	(0.3)	(9.5)	(10.1)
Land acquisition	—	—	(24.3)
Other	0.8	0.8	1.2
Net cash provided by (used in) investing activities of continuing operations	(127.9)	(121.2)	(141.1)
Net cash provided by (used in) investing activities of discontinued operations	3.9	(0.1)	—