SCHOLASTIC CORP
Form 10-Q
October 06, 2006

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

FORM 10-Q

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

For the quarterly period ended August 31, 2006 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

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 X No _

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

Indicate by check mark whether the Registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).
Yes _ No X

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

Title of each class	Number of shares outstanding as of September 30, 2006
Common Stock, $.01 par value	40,589,045
Class A Stock, $.01 par value	1,656,200

SCHOLASTIC CORPORATION
FORM 10-Q FOR THE QUARTERLY PERIOD ENDED AUGUST 31, 2006
INDEX

PART I - FINANCIAL INFORMATION

Item 1. Financial Statements

SCHOLASTIC CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS - UNAUDITED
(Dollar amounts in millions, except per share data)

	Three months ended August 31,	
	2006	**2005**
Revenues	**$ 334.9**	**$ 498.4**
Operating costs and expenses:		
Cost of goods sold	171.8	293.0
Selling, general and administrative expenses	196.6	202.4
Bad debt expense	15.7	12.6
Depreciation and amortization	16.9	15.6
Total operating costs and expenses	401.0	523.6
Operating loss	**(66.1)**	**(25.2)**
Interest expense, net	7.4	8.5
Loss before income taxes	(73.5)	(33.7)
Benefit from income taxes	26.6	12.5
Net loss	**$ (46.9)**	**$ (21.2)**
Basic and diluted loss per Share of Class A and Common Stock	**$ (1.12)**	**$ (0.52)**

See accompanying notes

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

	August 31, 2006	May 31, 2006	August 31, 2005
ASSETS	(Unaudited)		(Unaudited)
Current Assets:			
Cash and cash equivalents	$ 19.7	$ 205.3	$ 18.4
Accounts receivable, net	249.8	266.8	411.7
Inventories	548.0	431.5	509.2
Deferred promotion costs	57.0	49.8	41.8
Deferred income taxes	100.7	73.1	84.5
Prepaid expenses and other current assets	66.6	52.4	53.3
Total current assets	1,041.8	1,078.9	1,118.9
Property, plant and equipment, net	387.7	397.0	398.3
Prepublication costs	111.7	115.9	119.4
Installment receivables, net	10.8	11.2	11.2
Royalty advances	46.7	46.0	56.8
Production costs	5.1	5.9	9.3
Goodwill	253.5	253.1	254.1
Other intangibles	78.3	78.4	78.6
Other assets and deferred charges	69.4	65.8	64.5
Total assets	**$ 2,005.0**	**$ 2,052.2**	**$ 2,111.1**
LIABILITIES AND STOCKHOLDERS EQUITY			
Current Liabilities:			
Lines of credit, short-term debt and current portion of long-term debt	$ 301.5	$ 329.2	$ 33.8
Capital lease obligations	6.7	7.5	10.3
Accounts payable	164.3	141.7	179.3
Accrued royalties	47.7	36.6	127.2
Deferred revenue	33.6	19.3	29.7
Other accrued expenses	136.0	154.7	115.9
Total current liabilities	689.8	689.0	496.2
Noncurrent Liabilities:			
Long-term debt	174.3	173.2	546.0
Capital lease obligations	61.0	61.4	67.7
Other noncurrent liabilities	80.0	79.3	75.2
Total noncurrent liabilities	315.3	313.9	688.9
Commitments and Contingencies	-	-	-

Stockholders Equity:			
Preferred Stock, $1.00 par value	-	-	-
Class A Stock, $.01 par value	0.0	0.0	0.0
Common Stock, $.01 par value	0.4	0.4	0.4
Additional paid-in capital	461.6	458.7	440.2
Deferred compensation	-	(1.6)	(1.9)
Accumulated other comprehensive loss	(27.1)	(20.1)	(34.8)
Retained earnings	565.0	611.9	522.1
Total stockholders equity	999.9	1,049.3	926.0
Total liabilities and stockholders equity	**$ 2,005.0**	**$ 2,052.2**	**$ 2,111.1**

See accompanying notes

2

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

	Three months ended August 31,	
	2006	**2005**
Cash flows used in operating activities:		
Net loss	$ (46.9)	$ (21.2)
Adjustments to reconcile net loss to net cash used in operating activities:		
Provision for losses on accounts receivable	15.7	12.6
Amortization of prepublication and production costs	15.5	18.4
Depreciation and amortization	16.9	15.6
Royalty advances expensed	5.5	4.7
Deferred income taxes	(26.9)	(12.5)
Non-cash interest expense	0.4	0.4
Changes in assets and liabilities:		
Accounts receivable, net	2.7	(154.5)
Inventories	(115.9)	(102.3)
Prepaid expenses and other current assets	(14.2)	(8.4)
Deferred promotion costs	(7.1)	(2.2)
Accounts payable and other accrued expenses	4.2	28.2
Accrued royalties	11.1	87.1
Deferred revenue	14.2	6.0
Tax benefit realized from employee stock-based plans	0.3	2.8
Other, net	(13.6)	(13.5)
Total adjustments	(91.2)	(117.6)
Net cash used in operating activities	(138.1)	(138.8)
Cash flows used in investing activities:		
Prepublication expenditures	(9.2)	(12.3)
Additions to property, plant and equipment	(6.2)	(15.4)
Royalty advances	(6.1)	(7.2)
Production expenditures	(1.3)	(4.6)
Acquisition-related payments	-	(3.3)
Other	(1.2)	-
Net cash used in investing activities	(24.0)	(42.8)
Cash flows (used in) provided by financing activities:		
Borrowings under Credit Agreement and Revolver	13.0	104.0
Repayments of Credit Agreement and Revolver	(12.0)	(32.0)
Repurchase of 5.75% Notes	(35.4)	(2.0)
Borrowings under lines of credit	39.7	42.2
Repayments of lines of credit	(30.5)	(33.8)

Repayment of capital lease obligations	(2.6)	(2.4)
Proceeds pursuant to employee stock-based plans	4.1	13.3
Net cash (used in) provided by financing activities	(23.7)	89.3
Effect of exchange rate changes on cash and cash equivalents	0.2	0.1
Net decrease in cash and cash equivalents	(185.6)	(92.2)
Cash and cash equivalents at beginning of period	205.3	110.6
Cash and cash equivalents at end of period	**$ 19.7**	**$ 18.4**

See accompanying notes

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

1. Basis of Presentation

The accompanying condensed consolidated financial statements consist of the accounts of Scholastic Corporation (the Corporation) and all wholly-owned and majority-owned subsidiaries (collectively, Scholastic or the Company). These financial statements have not been audited but reflect those adjustments consisting of normal recurring items that management considers necessary for a fair presentation of financial position, results of operations and cash flow. These financial statements should be read in conjunction with the consolidated financial statements and related notes in the Annual Report on Form 10-K for the fiscal year ended May 31, 2006.

The Companys business is closely correlated to the school year. Consequently, the results of operations for the three months ended August 31, 2006 and 2005 are not necessarily indicative of the results expected for the full year. Due to the seasonal fluctuations that occur, the August 31, 2005 condensed consolidated balance sheet is included for comparative purposes.

The Companys condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States. The preparation of these financial statements involves the use of estimates and assumptions by management, which affect the amounts reported in the condensed consolidated financial statements and accompanying notes. The Company bases its estimates on historical experience, current business factors, and various other assumptions believed to be reasonable under the circumstances, all of which are necessary in order to form a basis for determining the carrying values of assets and liabilities. Actual results may differ from those estimates and assumptions. On an on-going basis, the Company evaluates the adequacy of its reserves and the estimates used in calculations, including, but not limited to: collectability of accounts receivable and installment receivables; sales returns; amortization periods; pension and other post-retirement obligations; and recoverability of inventories, deferred promotion costs, deferred income taxes and tax reserves, prepublication costs, royalty advances, goodwill and other intangibles.

Stock-Based Compensation

Prior to June 1, 2006, the Company applied the intrinsic value-based method of accounting prescribed by Accounting Principles Board (APB) Opinion No. 25, Accounting for Stock Issued to Employees (APB No. 25), and related interpretations in accounting for its stock-based benefit plans. Under this method, no compensation expense was recognized with respect to options granted under the Companys stock-based benefit plans, as the exercise price of each stock option issued was equal to the market price of the underlying stock on the date of grant and the exercise price and number of shares subject to grant were fixed.

In May 2006, the Human Resources and Compensation Committee (the Committee) of the Board of Directors (the Board) of the Corporation, which consists entirely of independent directors, approved the acceleration of the vesting of all unvested options to purchase the Corporations Class A Stock, par value $.01 per share (the Class A Stock), and the Corporations common stock, par value $.01 per share (the Common Stock), outstanding as of May 30, 2006 granted to employees (including executive officers) and outside directors of the Corporation (the Acceleration). Except for the Acceleration, all other terms and conditions applicable to such stock options were unchanged. Substantially all of these options had exercise prices in excess of the market value of the underlying Common Stock on May 30, 2006. The primary purpose of the Acceleration was to mitigate the future compensation expense that the Company would have otherwise recognized in its financial statements with respect to these options as a result of the adoption by the Company of Statement of Financial Accounting Standards (SFAS) No. 123R, Share Based Payment (SFAS 123R) effective as of June 1, 2006.

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

The Company adopted the fair value recognition provisions of SFAS 123R, which revises SFAS No. 123, Accounting for Stock-Based Compensation, using the modified prospective method. SFAS 123R requires the Company to recognize the cost of employee and director services received in exchange for any stock-based awards. Under SFAS 123R, the Company recognizes compensation expense on a straight-line basis over an awards requisite service period, which is generally the vesting period, based on the awards fair value at the date of grant.

The fair values of stock options granted by the Company are estimated at the date of grant using the Black-Scholes option-pricing model. The Companys determination of the fair value of share-based payment awards using this option-pricing model is affected by the price of the Common Stock as well as by assumptions regarding highly complex and subjective variables, including, but not limited to, the expected price volatility of the Common Stock over the terms of the awards, the risk-free interest rate, and actual and projected employee stock option exercise behaviors. Estimates of fair value are not intended to predict actual future events or the value that may ultimately be realized by employees or directors who receive these awards.

SFAS 123R requires forfeitures to be estimated at the time of grant and revised, if necessary, in subsequent periods if actual forfeitures differ from those estimates in order to derive the Companys best estimate of awards ultimately expected to vest. In determining the estimated forfeiture rates for stock-based awards, the Company periodically conducts an assessment of the actual number of equity awards that have been forfeited previously. When estimating expected forfeitures, the Company considers factors such as the type of award, the employee class and historical experience. The estimate of stock awards that will ultimately be forfeited requires significant judgment and, to the extent that actual results or updated estimates differ from current estimates, such amounts will be recorded as a cumulative adjustment in the period such estimates are revised. In the Companys pro forma information required under SFAS 123 for the periods prior to June 1, 2006, the Company accounted for forfeitures as they occurred.

The following table provides the estimated weighted average fair value, under the Black-Scholes option-pricing model, for options granted during the three months ended August 31, 2006 and 2005 and the significant weighted average assumptions used in their determination. The expected life represents an estimate of the period of time stock options are expected to remain outstanding based on the historical exercise behavior of the option grantees. The risk-free interest rate was based on the U.S. Treasury yield curve in effect at the time of the grant corresponding to the expected life. The volatility was estimated based on historical volatility corresponding to the expected life. The dividend yield was zero based on the fact that the Corporation has not paid any cash dividends since its initial public offering in February 1992 and has no current plans to pay any dividends.

	Three months ended August 31,	
	2006	**2005**
Dividend yield	0%	0%
Expected volatility	40.3%	49.7%
Risk free interest rate	5.1%	4.0%
Expected life (years) of stock option grant	5.6	5.0
Per share fair value of options granted	$ 12.68	$ 17.88

5

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

At August 31, 2006, the Company maintained three stockholder-approved employee stock-based benefit plans with regard to the Common Stock: the Scholastic Corporation 1992 Stock Option Plan (the 1992 Plan), under which no further awards can be made; the Scholastic Corporation 1995 Stock Option Plan (the 1995 Plan), under which no further awards can be made; and the Scholastic Corporation 2001 Stock Incentive Plan (the 2001 Plan). The 2001 Plan provides for the issuance of incentive stock options, which qualify for favorable treatment under the Internal Revenue Code, and options that are not so qualified, called non-qualified options, restricted stock and other stock-based awards.

At August 31, 2006, non-qualified stock options to purchase 25,000 shares, 2,760,844 shares and 2,700,830 shares of Common Stock were outstanding under the 1992 Plan, 1995 Plan and 2001 Plan, respectively, and 750,291 shares of Common Stock were available for additional awards under the 2001 Plan. In July 2006, 33,000 options were awarded under the 2001 Plan at an exercise price of $27.58.
The Company also maintains the 1997 Outside Directors Stock Option Plan (the 1997 Directors Plan), a stockholder-approved stock option plan for outside directors. The 1997 Directors Plan, as amended, provides for the automatic grant to each non-employee director on the date of each annual stockholders meeting of non-qualified stock options to purchase 6,000 shares of Common Stock. At August 31, 2006, options to purchase 376,000 shares of Common Stock were outstanding under the 1997 Directors Plan and 144,000 shares of Common Stock were available for additional awards under the 1997 Directors Plan.

The Scholastic Corporation 2004 Class A Stock Incentive Plan (the Class A Plan) provides for the grant to Richard Robinson, the Chief Executive Officer of the Corporation as of the effective date of the Class A Plan, of options (Class A Options) to purchase shares of Class A Stock. At August 31, 2006, there were 666,000 Class A Options outstanding, and 84,000 shares of Class A Stock were available for additional awards, under the Class A Plan.

Generally, options granted under the various plans may not be exercised for a minimum of one year after the date of grant and expire approximately ten years after the date of grant. As a result of the Acceleration, all unvested stock options outstanding as of May 30, 2006 became vested and immediately exercisable.

The following table sets forth the stock option activity for the Class A Stock and Common Stock plans for the three months ended August 31, 2006:

Stock Options	Shares (In thousands)	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (In years)	Aggregate Intrinsic Value (In millions)
Outstanding at May 31, 2006	6,885	$30.24		
Granted	33	$27.58		
Exercised	(170)	$22.61		
Expired or forfeited	(219)	$30.92		
Outstanding at August 31, 2006	6,529	$30.40	5.69	$16.3
Vested and expected to vest at August 31, 2006	6,529	$30.40	5.69	$16.3
Exercisable at August 31, 2006	6,496	$30.42	5.67	$16.2

Intrinsic value is generally defined as the amount by which the market price of a companys stock exceeds the exercise price of an option to purchase the companys stock.

In addition to stock options, the Company hasissued restricted stock units (RSUs) to certain officers and key executives under the 2001 Plan. RSUs automatically convert to shares of Common Stock on a one-for-one basis as the award vests, which is typically over a four-year period. The Company measures the value of RSUs at fair value based on the number of shares granted and the price of the Common Stock at the date of grant. The Company amortizes the fair value as stock-based compensation expense over the vesting term on a straight-line basis. Upon settlement of RSUs, the total compensation expense recorded over the vesting period of the awards will equal the settlement amount, which is based on the price of the Common Stock on the settlement date.

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

The Company's Management Stock Purchase Plan ("MSPP") allows certain members of senior management to defer up to 100% of their annual cash bonus payment in the form of restricted stock units (the "MSPP RSUs"). The MSPP RSUs are purchased by the employee at a 25% discount from the lowest closing price of the Common Stock during the fiscal quarter in which such bonuses are payable and are automatically converted into shares of Common Stock on a one-for-one basis at the end of the applicable deferral period. The Company measures the value of MSPP RSUs at fair value based on the number of shares granted and the price of the Common Stock at the date of grant, giving effect to the 25% discount. The Company amortizes the fair value as stock-based compensation expense over the vesting term on a straight-line basis.

The Company also maintains an Employee Stock Purchase Plan (the "ESPP"), which is offered to eligible United States employees. As amended, the ESPP permits participating employees to purchase Common Stock, with after-tax payroll deductions, on a quarterly basis at a 15% discount from the closing price of the Common Stock on the last business day of each fiscal quarter. The Company measures the value of ESPP stock issuances at fair value based on the number of shares granted and the price of the Common Stock at the date of grant, giving effect to the 15% discount. Prior to June 1, 2006, no compensation expense was recognized with respect to the ESPP under APB No. 25. Upon adoption of SFAS 123R by the Company effective as of June 1, 2006, the Company began recognizing the fair value as stock-based compensation expense for the ESPP in the quarter in which the employees participated in the plan.

If SFAS 123R had been applicable to the Company during the three-month period ended August 31, 2005 and compensation cost for the Company's stock-based plans had been accounted for in accordance with SFAS 123R, the Company's net loss and basic and diluted loss per share for the three-month period ended August 31, 2005 would have been changed to the pro forma amounts in the following table:

Net loss – as reported	$ (21.2)
Add: Stock-based employee compensation included in reported net loss, net of tax	0.1
Deduct: Total stock-based employee compensation expense determined under fair value-based method, net of tax	2.7
Net loss – pro forma	**$ (23.8)**
Basic and diluted loss per share – as reported	$ (0.52)
Basic and diluted loss per share – pro forma	$ (0.58)

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

As a result of the adoption of SFAS 123R, the Company incurred compensation expense of $0.3 in the aggregate for the three months ended August 31, 2006, which is significantly lower than the amount that would have been recorded in that period if the Acceleration had not been implemented.

The total intrinsic value of stock options exercised during the three months ended August 31, 2006 was $1.0. As of August 31, 2006, the total pre-tax compensation cost not yet recognized by the Company with regard to outstanding unvested stock-based awards was $1.9. The weighted average period over which this compensation cost is expected to be recognized is 2.6 years.

On November 10, 2005, the FASB issued Staff Position No. 123(R)-3, Transition Election Related to Accounting for the Tax Effects of Share-Based Payment Awards, which provides an alternative (and simplified) method to calculate the pool of excess income tax benefits upon the adoption of SFAS 123R. Among other things, Staff Position No. 123(R)-3 provides a specific method for the presentation of excess tax benefits within the statement of cash flows when the alternative pool calculation is used. Although Staff Position No. 123(R)-3 became effective upon its issuance, companies may take up to one year from initial adoption of SFAS 123R to evaluate the available transition alternatives and make a one-time election. The Company is currently in the process of evaluating these alternative methods.

New Accounting Pronouncements

In May 2005, the FASB issued SFAS No. 154, Accounting Changes and Error Corrections - a replacement of APB Opinion No. 20 and FASB Statement No. 3 (SFAS 154). Under the previous guidance, most voluntary changes in accounting principle were required to be recognized as the cumulative effect of a change in accounting principle within the net income of the period in which the change was made. SFAS 154 requires retrospective application to prior period financial statements of a voluntary change in accounting principle, unless it is impracticable to do so. SFAS 154 is effective for accounting changes and corrections of errors made in fiscal years beginning after December 15, 2005. The adoption of SFAS 154 by the Company effective as of June 1, 2006 had no material immediate effect on the Companys consolidated financial position, results of operations or cash flows.

In July 2006, the FASB issued Interpretation No. 48, "Accounting for Uncertainty in Income Taxes" ("FIN 48"). FIN 48 clarifies the accounting for uncertainty in income taxes recognized in a company's financial statements in accordance with SFAS No. 109, "Accounting for Income Taxes." FIN 48 provides guidance on recognizing, measuring, presenting, and disclosing in the financial statements uncertain tax positions that a company has taken or expects to file in a tax return. FIN 48 will become effective for the Company's fiscal year beginning June 1, 2007. The Company is currently evaluating the impact, if any, that FIN 48 will have on its consolidated financial position, results of operations and cash flows.

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

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

In September 2006, the FASB issued SFAS No. 158, "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans—an amendment of FASB Statements No. 87, 88, 106, and 132(R)" ("SFAS 158"). SFAS 158 requires an employer to recognize the over-funded or under-funded status of a defined benefit postretirement plan (other than a multiemployer plan) as an asset or liability in its statement of financial position and to recognize changes in that funded status in the year in which the changes occur through comprehensive income. SFAS 158 also requires the measurement of defined benefit plan assets and obligations as of the date of the employer's fiscal year-end statement of financial position (with limited exceptions). Under SFAS 158, the Company will be required to recognize the funded status of its defined benefit postretirement plan and to provide the required disclosures commencing as of May 31, 2007. The Company is currently evaluating the impact, if any, that SFAS 158 will have on its consolidated financial position, results of operations and cash flows.

2. Segment Information

The Company categorizes its businesses into four operating segments: *Children's Book Publishing and Distribution; Educational Publishing; Media, Licensing and Advertising* (which collectively represent the Company's domestic operations); and *International*. This classification reflects the nature of products and services consistent with the method by which the Company's chief operating decision-maker assesses operating performance and allocates resources. Revenues and operating margin related to a segment's products sold or services rendered through another segment's distribution channel are reallocated to the segment originating the products or services.

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

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

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

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

SCHOLASTIC CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - UNAUDITED

(Dollar amounts in millions, except per share data)

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

	Children's Book Publishing and Distribution	Educational Publishing	Media, Licensing and Advertising	Overhead (1)	Total Domestic	International	Consolidated
Three months ended							
August 31, 2006							