SCHOLASTIC CORP
Form 10-K/A
March 13, 2009

United States
Securities and Exchange Commission

Washington, D.C. 20549

Form 10-K/A

Amendment No. 1

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

For the fiscal year ended May 31, 2008 | Commission File No. 000-19860

Scholastic Corporation

(Exact name of Registrant as specified in its charter)

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

Registrant's telephone number, including area code: (212) 343-6100
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 x No o

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

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 o

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 Registrants 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. x

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):

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

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

The aggregate market value of the Common Stock, par value $0.01, held by non-affiliates as of November 30, 2007, was approximately $1,069,580,847. 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 Registrants voting stock as of June 30, 2008 was as follows: 36,326,263 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 Registrants definitive proxy statement for the Annual Meeting of Stockholders to be held on September 19, 2008.

EXPLANATORY NOTE

Scholastic Corporation (the “Corporation”) is filing this Amendment No. 1 to its Form 10-K for the fiscal year ended May 31, 2008, which was originally filed with the Securities and Exchange Commission (the “SEC”) on July 30, 2008. This Amendment solely amends and restates Item 9A “Controls and Procedures” of Part II of Form 10-K as to the Corporation’s assessment of its disclosure controls and procedures and internal control over financial reporting, and the attestation report of Ernst & Young, the Corporation’s independent registered public accountants, and their financial statement opinion in order to update their reference to such new attestation report, included in Item 8 “Consolidated Financial Statements and Supplementary Data” of Part II of Form 10-K. The only changes to the material included in Item 8 were the changes to the reports of Ernst & Young referred to above, and there were no changes or modifications to any of the financial statements and financial information, including the notes thereto, included in Item 8. However, pursuant to Rule 12b-15 under the Securities Exchange Act of 1934, this Amendment No. 1 includes all of the disclosures required by both Items 8 and 9A of Part II of Form 10-K . Except as described above, Amendment No. 1 does not amend any other item of the Form 10-K and does not modify or update in any way the disclosures contained in the original filing on Form 10-K. Accordingly, this Amendment No. 1 to Form 10-K should be read in conjunction with the Form 10-K and the Corporation’s subsequent reports filed with the SEC.

In addition, as required by Rule 12b-15 under the Securities Exchange Act of 1934, new certifications of the Corporation’s principal executive officer and principal financial officer are filed as exhibits to this Amendment No. 1 under Item 15 of Part IV hereof.

Item 8 | Consolidated Financial Statements and Supplementary Data

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Consolidated Statements of Operations

(Amounts in millions, except per share data)
Years ended May 31,

	2008	2007	2006
Revenues	**$ 2,205.6**	**$ 1,921.9**	**$ 2,052.2**
Operating costs and expenses:			
Cost of goods sold (exclusive of depreciation)	1,053.7	893.4	1,002.9
Selling, general and administrative expenses	869.2	806.6	828.0
Bad debt expense	11.4	12.8	14.8
Depreciation and amortization	64.6	63.5	62.8
Total operating costs and expenses	1,998.9	1,776.3	1,908.5
Operating income	**206.7**	**145.6**	**143.7**
Other income	2.6	3.0	
Interest income	3.1	2.6	3.5
Interest expense	32.9	33.5	35.8
Earnings from continuing operations before income taxes	179.5	117.7	111.4
Provision for income taxes	68.9	42.6	39.0
Earnings from continuing operations	**110.6**	**75.1**	**72.4**
Loss from discontinued operations, net of tax	**(127.8)**	**(14.2)**	**(3.8)**
Net (Loss) Income	**$ (17.2)**	**$ 60.9**	**$ 68.6**
Basic and diluted (loss) earnings per Share of Class A and Common Stock:			
Basic:			
Earnings from continuing operations	$ 2.86	$ 1.77	$ 1.74
Loss from discontinued operations	$ (3.30)	$ (0.34)	$ (0.09)
Net (loss) income	$ (0.44)	$ 1.43	$ 1.65
Diluted:			
Earnings from continuing operations	$ 2.82	$ 1.75	$ 1.72
Loss from discontinued operations	$ (3.26)	$ (0.33)	$ (0.09)
Net (loss) income	$ (0.44)	$ 1.42	$ 1.63

See accompanying notes

Consolidated Balance Sheets

ASSETS	2008	2007
		(Restated)
Current Assets:		
Cash and cash equivalents	$ 120.0	$ 21.6
Accounts receivable (less allowance for doubtful accounts of $17.8 at May 31, 2008 and $15.9 at May 31, 2007)	220.1	230.7
Inventories	370.2	375.4
Deferred promotion costs	5.9	5.7
Deferred income taxes	116.9	71.5
Prepaid expenses and other current assets	54.2	51.5
Current assets of discontinued operations	30.7	160.5
Total current assets	**918.0**	**916.9**
Property, Plant and Equipment:		
Land	12.8	12.6
Buildings	113.4	108.1
Capitalized software	207.3	277.0
Furniture, fixtures and equipment	280.8	188.6
Leasehold improvements	179.1	175.3
	793.4	761.6
Less accumulated depreciation and amortization	(434.8)	(402.9)
Net property, plant and equipment	**358.6**	**358.7**
Other Assets and Deferred Charges:		
Prepublication costs	110.6	100.7
Installment receivables	0.9	0.9
Royalty advances (less allowance for reserves of $62.4 at May 31, 2008 and $56.8 at May 31, 2007)	48.6	50.3
Production costs	4.9	4.3
Goodwill	172.3	173.5
Other intangibles	47.5	50.0
Noncurrent deferred income taxes	42.6	38.5
Other	57.6	53.5
Noncurrent assets of discontinued operations		69.4
Total other assets and deferred charges	**485.0**	**541.1**
Total assets	**$ 1,761.6**	**$ 1,816.7**

See accompanying notes

(Amounts in millions, except share data)
Balances at May 31,

LIABILITIES AND STOCKHOLDERS EQUITY	2008	2007
		(Restated)
Current Liabilities:		
Lines of credit and current portion of long-term debt	$ 54.6	$ 66.2
Capital lease obligations	4.9	5.5
Accounts payable	109.7	121.7
Accrued royalties	46.2	34.3
Deferred revenue	36.2	24.2
Other accrued expenses	173.6	138.0
Current liabilities of discontinued operations	16.5	24.2
Total current liabilities	**441.7**	**414.1**
Noncurrent Liabilities:		
Long-term debt	295.1	173.4
Capital lease obligations	56.7	59.8
Other noncurrent liabilities	95.0	100.1
Noncurrent liabilities of discontinued operations		1.3
Total noncurrent liabilities	**446.8**	**334.6**
Commitments and Contingencies		
Stockholders Equity:		
Preferred Stock, $1.00 par value Authorized 2,000,000 shares; Issued None		
Class A Stock, $.01 par value Authorized 4,000,000 shares; Issued and Outstanding 1,656,200 shares	0.0	0.0
Common Stock, $.01 par value Authorized 70,000,000 shares; Issued 42,882,304: Outstanding 36,444,518 shares (41,422,121 shares issued and outstanding at May 31, 2007)	0.4	0.4
Additional paid-in capital	539.1	490.3
Accumulated other comprehensive loss	(34.7)	(34.5)
Retained earnings	588.3	611.8
Treasury stock at cost	(220.0)	
Total stockholders equity	**873.1**	**1,068.0**
Total liabilities and stockholders equity	**$ 1,761.6**	**$ 1,816.7**

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

	Class A Stock			Common Stock			Additional Paid-in Capital
	Shares	Amount		Shares	Amount		
Balance at May 31, 2005, as previously reported	**1,656,200**	**$**	**0.0**	**39,076,544**	**$ 0.4**	**$**	**424.0**
Cumulative effect of restatement							
Balance at May 31, 2005 (Restated)	**1,656,200**		**0.0**	**39,076,544**	**0.4**		**424.0**
Comprehensive income:							
Net income							
Other comprehensive income, net:							
Foreign currency translation adjustment							
Minimum pension liability adjustment, net of tax of $4.4							
Total other comprehensive income							
Total comprehensive income							
Deferred compensation, net of amortization				26,690	0.0		0.3
Proceeds from issuance of common stock pursuant to employee stock-based plans				1,179,012	0.0		28.7
Tax benefit realized from employee stock-based plans							5.7
Balance at May 31, 2006 (Restated)	**1,656,200**	**$**	**0.0**	**40,282,246**	**$ 0.4**	**$**	**458.7**
Comprehensive income:							
Net income							
Other comprehensive income, net:							
Foreign currency translation adjustment							
Minimum pension liability adjustment, net of tax of $1.2							
Total other comprehensive income							
Total comprehensive income							
Adoption of SFAS No. 158, net of tax $(8.5)							
Stock-based compensation (SFAS No. 123R)				22,148	0.0		1.6
Proceeds from issuance of common stock pursuant to employee stock-based plans				1,117,727	0.0		26.8
Tax benefit realized from employee stock-based plans							3.2
Balance at May 31, 2007 (Restated)	**1,656,200**	**$**	**0.0**	**41,422,121**	**$ 0.4**	**$**	**490.3**
Comprehensive income:							
Net loss							
Other comprehensive income (loss), net:							
Foreign currency translation adjustment							
Pension and postretirement adjustments recognized in accordance with SFAS 158 (net of tax of (1.2)							
Total other comprehensive loss							
Total comprehensive income (loss)							
Stock-based compensation (SFAS No. 123R)							7.0
Adoption FIN 48							
Proceeds from issuance of common stock pursuant to employee stock-based plans							37.6

Tax benefit realized from employee stock-based plans			1,460,183		4.2
Purchases of treasury stock at cost			(6,437,786)		
Balance at May 31, 2008	**1,656,200**	**$ 0.0**	**36,444,518**	**$ 0.4**	**$ 539.1**

See accompanying notes

(Amounts in millions, except share data)
Years ended May 31, 2008, 2007, 2006 and 2005

	Deferred Compensation	Accumulated Other Comprehensive Income (Loss)	Retained Earnings	Treasury Stock At Cost	Total Stockholders Equity
Balance at May 31, 2005, as previously reported	**$ (2.1)**	**$ (28.5)**	**$ 543.3**	**$ 0.0**	**$ 937.1**
Cumulative effect of restatement			**(61.0)**		**(61.0)**
Balance at May 31, 2005 (Restated)	**(2.1)**	**(28.5)**	**482.3**	**0.0**	**876.1**
Comprehensive income:					
Net income			68.6		68.6
Other comprehensive income, net:					
Foreign currency translation adjustment		0.8			0.8
Minimum pension liability adjustment, net of tax of $4.4		7.6			7.6
Total other comprehensive income					8.4
Total comprehensive income					77.0
Deferred compensation, net of amortization	0.5				0.8
Proceeds from issuance of common stock pursuant to employee stock-based plans					28.7
Tax benefit realized from employee stock-based plans					5.7
Balance at May 31, 2006 (Restated)	**$ (1.6)**	**$ (20.1)**	**$ 550.9**	**$ 0.0**	**$ 988.3**
Comprehensive income:					
Net income			60.9		60.9
Other comprehensive income, net:					
Foreign currency translation adjustment		(1.0)			(1.0)
Minimum pension liability adjustment, net of tax of $1.2		2.3			2.3
Total other comprehensive income					1.3
Total comprehensive income					62.2
Adoption of SFAS No. 158, net of tax $(8.5)		(15.7)			(15.7)
Stock-based compensation (SFAS No. 123R)	1.6				3.2
Proceeds from issuance of common stock pursuant to employee stock-based plans					26.8
Tax benefit realized from employee stock-based plans					3.2
Balance at May 31, 2007 (Restated)	**$ 0.0**	**$ (34.5)**	**$ 611.8**	**$ 0.0**	**$ 1,068.0**
Comprehensive income:					
Net loss			(17.2)		(17.2)
Other comprehensive income (loss), net:					
Foreign currency translation adjustment		2.0			2.0
Pension and postretirement adjustments recognized in accordance with SFAS 158 (net of tax of $(0.8))		(2.1)			(2.1)

Total other comprehensive loss					(0.1)
Total comprehensive income (loss)					(17.3)
Stock-based compensation (SFAS No. 123R)					7.0
Adoption FIN 48			(6.4)		(6.4)
Proceeds from issuance of common stock pursuant to employee stock-based plans					37.6
Tax benefit realized from employee stock-based plans					4.2
Purchases of treasury stock at cost				(220.0)	(220.0)
Balance at May 31, 2008	**$ 0.0**	**$ (34.6)**	**$ 588.2**	**$ (220.0)**	**$ 873.1**

Consolidated Statements of Cash Flows

(Amounts in millions)
Years ended May 31,

	2008	2007	2006
Cash flows provided by (used in) operating activities:			
Net (loss) income	$ (17.2)	$ 60.9	$ 68.6
Loss from discontinued operations, net of tax	(127.8)	(14.2)	(3.8)
Earnings from continuing operations	110.6	75.1	72.4
Adjustments to reconcile earnings from continuing operations to net cash provided by operating activities of continuing operations:			
Provisions for losses on accounts receivable and other reserves	46.7	45.1	44.4
Amortization of prepublication and production costs	46.2	56.9	66.3
Depreciation and amortization	64.6	63.5	62.8
Deferred income taxes	19.1	(0.6)	(2.2)
Changes in assets and liabilities:			
Accounts receivable	4.3	(23.9)	(8.2)
Inventories	(16.8)	(15.0)	(45.0)
Prepaid expenses and other current assets	11.6	(3.2)	(5.6)
Deferred promotion costs	0.3		1.5
Royalty advances	(5.0)	(8.8)	9.1
Accounts payable and other accrued expenses	(0.7)	(25.6)	32.6
Accrued royalties	11.3	1.5	(3.2)
Deferred revenue	12.9	2.2	(4.4)
Other, net	3.8	15.2	16.3
Total adjustments	198.3	107.3	164.4
Net cash provided by operating activities of continuing operations	308.9	182.4	236.8
Net cash used in operating activities of discontinued operations	(0.3)	(2.9)	(17.5)
Net cash provided by operating activities	308.6	179.5	219.3
Cash flows provided by (used in) investing activities:			
Prepublication expenditures	(54.3)	(44.6)	(46.8)
Additions to property, plant and equipment	(56.8)	(46.1)	(58.7)
Production expenditures	(4.5)	(5.5)	(12.9)
Repayment of loan from investee	6.2	5.6	5.7
Loan to investee	(6.1)	(7.7)	(5.3)
Other	(2.6)	(1.8)	(4.5)
Net cash used in investing activities of continuing operations	(118.1)	(100.1)	(122.5)
Net cash used in investing activities of discontinued operations	(5.3)	(7.0)	(10.2)
Net cash used in investing activities	(123.4)	(107.1)	(132.7)
Cash flows provided by (used in) financing activities:			
Borrowings under Credit Agreement, Revolver and Revolving Loan	390.0	349.0	170.3
Repayments of Credit Agreement, Revolver and Revolving Loan	(211.4)	(349.0)	(170.3)
Repurchase/repayment of 5.75% and 5% Notes	(14.5)	(294.0)	(6.0)
Borrowings under lines of credit	470.9	270.0	248.2
Repayments of lines of credit	(524.5)	(238.6)	(240.8)
Repayment of capital lease obligations	(5.5)	(7.5)	(10.3)
Reacquisition of Common Stock	(220.0)		
Proceeds pursuant to stock-based compensation plans	37.5	26.9	28.7
Other	1.0	(0.7)	
Net cash provided by (used in) financing activities of continuing operations	(76.5)	(243.9)	19.8

Net cash used in financing activities of discontinued operations			
Net cash provided by (used in) financing activities	(76.5)	(243.9)	19.8
Effect of exchange rate changes on cash and cash equivalents	(11.1)	(11.0)	(11.7)
Net increase (decrease) in cash and cash equivalents	97.6	(182.5)	94.7
Cash and cash equivalents at beginning of year, including cash of discontinued operations of $1.2, $3.6, and $5.1 at June 1, 2007, 2006 and 2005, respectively	22.8	205.3	110.6
Cash and cash equivalents at end of year, including cash of discontinued operations of $0.4, $1.2 and $3.6 at May 31, 2008, 2007 and 2006, respectively	**120.4**	**22.8**	**205.3**

See accompanying notes

Consolidated Statements of Cash Flows

(Amounts in millions)
Years ended May 31,

	2008	2007	2006
Supplemental information:			
Income taxes paid	$ 45.9	$ 24.7	$ 35.9
Interest paid	33.1	28.1	27.2
Non-cash investing and financing activities: Capital leases	1.9	2.6	3.4

See accompanying notes

Notes to Consolidated Financial Statements
(Amounts in millions, except share and per share data)

1. DESCRIPTION OF THE BUSINESS, BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Description of the business

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 developer of educational technology products. Scholastic also creates quality educational and entertainment materials and products for use in school and at home, including magazines, children s reference and non-fiction materials, teacher materials, television programming, film, videos and toys. 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 the internet. The Company s website, scholastic.com, is a leading site for teachers, classrooms and parents and an award-winning destination for children. In addition to its operations in the United States, Scholastic has long-established operations in Canada, the United Kingdom, Australia, New Zealand and Asia and newer operations in Argentina, China, India, Ireland and Mexico and, through its export business, sells products in over 135 countries.

Basis of presentation

Principles of consolidation

The consolidated financial statements include the accounts of the Corporation and all wholly-owned and majority-owned subsidiaries. All significant intercompany transactions are eliminated in consolidation.

Discontinued Operations

As more fully described in Note 3, Discontinued Operations, during the three months ended February 29, 2008, the Company announced that it intends to sell its direct-to-home continuity businesses (the DTH business), including the domestic portion located in the United States and the international portion located in the United Kingdom and Canada as well as a related warehousing and distribution facility located in Maumelle, Arkansas (the Maumelle Facility). During the fourth quarter of fiscal 2008, due to the impending sale of the DTH business, it was also determined that the Scholastic school-based Continuities business (the SC business) would not have an adequate infrastructure and, as a result, the SC business was shut down effective May 31, 2008. As a result of the planned divestitures, assets and liabilities associated with the DTH business and SC business that are intended to be disposed of are presented on the Company s Consolidated Balance Sheets as Current assets of discontinued operations, Noncurrent assets of discontinued operations, Current liabilities of discontinued operations and Noncurrent liabilities of discontinued operations , as of May 31, 2008. The results of operations of the DTH business and SC business for the fiscal year ended May 31, 2008 are included in the Consolidated Statements of Operations as Loss from discontinued operations, net of tax. The cash flows of the discontinued operations are also presented separately in the Company s Consolidated Statements of Cash Flows for the fiscal year ended May 31, 2008. All corresponding prior year periods presented in the Company s Consolidated Financial Statements and accompanying notes have been reclassified to reflect the discontinued operations presentation.

Use of estimates

The Company s 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 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; stock-based compensation expense; pension and other post-retirement obligations; tax rates; and recoverability of inventories, deferred promotion costs, deferred income taxes and tax reserves, fixed assets, prepublication costs, and royalty advances, and the fair value of goodwill and other intangibles. In addition, for a description of the significant assumptions and estimates used by management in connection with discontinued operations, see Note 3, Discontinued Operations.

Reclassifications

In addition to the reclassification to reflect the discontinued operations presentation, certain prior year amounts have been reclassified to conform to the current year. Royalty advances, which were previously reported within Cash flows used in investing activities in the Company s Consolidated Statements of Cash Flows, are now presented as a component of Changes in assets and liabilities within Cash flows provided by operating activities. The prior year reclassifications to the Statements of Cash Flows resulted in $33.6 and $28.1 decreases in Net cash provided by operating activities for the fiscal years ended May 31, 2007 and 2006, respectively.

As reported:

	2007	2006
Cash flows provided by operating activities:		
Royalty advances expensed	25.1	33.5
Changes in assets and liabilities:		
Royalty advances		
Net cash provided by operating activities	25.1	33.5
Cash flows used in investing activities:		
Royalty advances	(33.6)	(28.1)
Net cash used in investing activities	(33.6)	(28.1)

Revised to reflect the reclass of royalty advances:

	2007	2006
Cash flows provided by (used in) operating activities:		
Changes in assets and liabilities:		
Royalty advances	(8.8)	9.1
Net cash provided by (used in) operating activities of continuing operations	(8.8)	9.1
Net cash provided by (used in) operating activities of discontinued operations	0.3	(3.7)
Net cash provided by (used in) operating activities	(8.5)	5.4

Summary of Significant Accounting Policies

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.

School-Based Book Fairs Revenues associated with school-based book fairs are related to sales of product. Book fairs are typically run by schools over a five business day period. At the end of reporting periods, the Company defers 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 revenue.

Continuity Programs The Company operates continuity programs whereby customers generally place an order to receive multiple shipments of children s books and other products over a period of time. Revenue from continuity programs is recognized at the time of shipment or, in applicable cases, upon

customer acceptance. Reserves for estimated returns are 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 and sales patterns. The Company s direct-to-home continuity businesses located in the United States, the United Kingdom, and Canada, and its school continuities business, are currently classified as discontinued operations.

Trade Revenue from the sale of children s books for distribution in the retail channel is primarily recognized when title transfers to the customer, which generally is at the time of shipment, or when the product is on sale and available to the public. 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 and sales patterns.

Educational Publishing For shipments to schools, revenue is recognized on passage of title, which generally occurs upon receipt by 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 and training, and, in such cases, revenue is recognized when installation and training are complete.

Toy Catalog Revenue from the sale of children s toys to the home through catalogs is recognized when title transfers to the customer, which generally is at the time of shipment. 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 and sales patterns.

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 on 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.

Cash equivalents

Cash equivalents consist of short-term investments with original maturities of three months or less.

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. The Company is required to estimate the collectability of its receivables. Reserves for returns are based on historical return rates and sales patterns. Allowances for doubtful accounts are established through the evaluation of accounts receivable agings and prior collection experience to estimate the ultimate collectability of these receivables.

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.

Deferred promotion costs

Deferred promotion costs represent all direct costs associated with direct mail, co-op, internet and telemarketing promotions, including incentive product costs incurred to acquire customers in the Company s magazine businesses. Promotional costs are deferred when incurred and amortized in the proportion that

current revenues bear to estimated total revenues. Except as discussed above, all other advertising costs are expensed as incurred.

Property, plant and equipment

Property, plant and equipment are stated at cost. Depreciation and amortization are recorded on a straight-line basis, over estimated useful lives. Buildings have an estimated useful life, for purposes of depreciation, of forty years. Capitalized software is depreciated over a period of three to seven years. Amortization expense for capitalized software was $21.8, $22.9 and $19.3 for the fiscal years ended May 31, 2008, 2007 and 2006 respectively. Furniture, fixtures and equipment are depreciated over periods not exceeding ten years. Leasehold improvements are amortized over the life of the lease or the life of the assets, whichever is shorter. Interest is capitalized on major construction projects based on the outstanding construction-in-progress balance for the period and the average borrowing rate during the period. The Company evaluates the depreciation periods of property, plant and equipment to determine whether events or circumstances warrant revised estimates of useful lives.

Leases

Lease agreements are evaluated to determine whether they are capital or operating leases in accordance with Statement of Financial Accounting Standards (SFAS) No. 13, Accounting For Leases, as amended (SFAS No. 13). When substantially all of the risks and benefits of property ownership have been transferred to the Company, as determined by the test criteria in SFAS No. 13, the lease then qualifies as a capital lease.

Capital leases are capitalized at the lower of the net present value of the total amount of rent payable under the leasing agreement (excluding finance charges) or the fair market value of the leased asset. Capital lease assets are depreciated on a straight-line basis, over a period consistent with the Company s normal depreciation policy for tangible fixed assets, but generally not exceeding the lease term. Interest charges are expensed over the period of the lease in relation to the carrying value of the capital lease obligation.

Rent expense for operating leases, which may include free rent or fixed escalation amounts in addition to minimum lease payments, is recognized on a straight-line basis over the duration of each lease term.

Prepublication costs

The Company capitalizes the art, prepress, editorial and other costs incurred in the creation of the master copy of a book or other media (the prepublication costs). Prepublication costs are amortized on a straight-line basis over a three- to seven-year period. The Company regularly reviews the recoverability of the capitalized costs based on expected future revenues.

Royalty advances

Royalty advances are capitalized and expensed as related revenues are earned or when future recovery appears doubtful. The Company records a reserve for the recoverability of its outstanding advances to authors based primarily upon historical earndown experience.

Goodwill and intangible assets

Goodwill and indefinite-lived intangible assets 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. 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 reporting units.

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 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. Customer lists are amortized on a straight-line basis over a 5 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 primarily from 3 to 5 years.

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 ongoing 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.

It is the Company s policy to recognize uncertain income tax positions when the tax position is more likely than not to be sustained upon examination. The Company assesses all income tax positions and adjusts its reserves against these positions periodically based upon these criteria. The Company also assesses potential penalties and interest associated with these tax positions, and includes these amounts as a component of income tax expense.

In calculating the provision for income taxes on an interim basis, the Company uses an estimate of the annual effective tax rate based upon the facts and circumstances known. The Company s effective tax rate is based on expected income and statutory tax rates and permanent differences between financial statement and tax return income applicable to the Company in the various jurisdictions in which the Company operates.

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 and discussions with its actuaries. 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 Scholastic Corporation and certain of its subsidiaries have defined benefit pension plans covering the majority of their employees who meet certain eligibility requirements. The Company s pension plans and other post-retirement benefits are accounted for using actuarial valuations required by SFAS No. 87, Employers Accounting for Pensions, and SFAS No. 106, Employers Accounting for Post-retirement Benefits Other Than Pensions. In September 2006, the Financial Accounting Standards Board (the FASB) released SFAS No. 158, Employers Accounting for Defined Benefit Pension and Other Post-retirement Plans, an amendment of SFAS No. 87, 88, 106, and 132 (SFAS No. 158).

On May 31, 2007, the Company adopted the recognition and disclosure provisions of SFAS No. 158, which required the Company to recognize the funded status of its pension plans in its May 31, 2007 consolidated balance sheet, with a corresponding adjustment to accumulated other comprehensive income, net of taxes. The adjustment to accumulated other comprehensive income at adoption represents the net unrecognized actuarial losses (gains) and unrecognized prior service costs under the Company s pension plans and other post-retirement benefits. These amounts will be subsequently recognized as net periodic pension cost pursuant to the Company s historical accounting policy for amortizing such

amounts. Further, actuarial gains and losses that arise in subsequent periods and are not recognized as net periodic pension cost or net periodic post-retirement benefit cost in the same periods will be recognized as a component of comprehensive income. Those amounts will be subsequently recognized as a component of net periodic pension cost or net periodic post-retirement benefit cost on the same basis as the amounts recognized in accumulated other comprehensive income (loss) at the adoption of SFAS No. 158.
The incremental effect of adopting the provisions of SFAS No. 158 on the Company s consolidated balance sheet at May 31, 2007 is a reduction in stockholders equity of $15.7, net of tax. The adoption of SFAS No. 158 had no effect on the Company s results of operations or cash flows for the year ended May 31, 2007, or for any prior period presented, and it did not and will not have any effect on the Company s results of operations or cash flows in periods after May 31, 2007.

The adoption of the measurement provision of SFAS No. 158 did not have any effect on the Company s results of operations or cash flows for the year ended May 31, 2008 and will not have any effect on the Company s results of operations or cash flows in the periods after May 31, 2008.

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 the service 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. 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 period.

Other post-retirement benefits Scholastic Corporation provides post-retirement benefits, consisting of healthcare and life insurance benefits, to retired United States-based employees. A majority of these employees may become eligible for these benefits if they reach normal retirement age while working for the Company. The post-retirement medical plan benefits are funded on a pay-as-you-go basis, with the Company paying a portion of the premium and the employee paying the remainder. The Company follows SFAS No. 106, Employers Accounting for Post-retirement Benefits Other than Pensions, in calculating the existing benefit obligation, which 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. The assumed health care cost trend rate is used in the measurement of the long-term expected increase in medical claims.

Foreign currency translation

The Company s non-United States dollar-denominated assets and liabilities are translated into United States dollars at prevailing rates at the balance sheet date and the revenues, costs and expenses are translated at the average rates prevailing during each reporting period. Net gains or losses resulting from the translation of the foreign financial statements and the effect of exchange rate changes on long-term intercompany balances are accumulated and charged directly to the foreign currency translation adjustment component of stockholders equity. The Company does not expect to repatriate earnings from foreign corporate subsidiaries and therefore does not provide for taxes on cumulative translation adjustments within stockholders equity.

Shipping and handling costs

Amounts billed to customers for shipping and handling are classified as revenue. Costs incurred in shipping and handling are recognized in cost of goods sold.

Earnings per share

Basic earnings per share is based on the weighted average shares of Class A Stock and Common Stock outstanding. Diluted earnings per share is based on the weighted average shares of Class A Stock and Common Stock outstanding adjusted for the impact of potentially dilutive securities outstanding on continuing operations. The dilutive impact of options outstanding on continuing operations is calculated using the treasury stock method, which treats the options as if they were exercised at the beginning of the period, adjusted for Common Stock assumed to be repurchased with the proceeds and tax benefit realized upon exercise. Any potentially dilutive security on continuing operations is excluded from the computation of diluted earnings per share for any period in which it has an anti-dilutive effect. Options that were not included in the computation of diluted earnings per share because to do so would have been anti-dilutive totaled: 2,770,635 at May 31, 2008, 3,311,436 at May 31, 2007, and 1,934,107 at May 31, 2006.

Discontinued Operations

SFAS No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets (SFAS 144), requires the calculation of estimated fair value less cost to sell of long-lived assets. The calculation of estimated fair value less cost to sell includes significant estimates and assumptions, including, but not limited to: operating projections and the discount rate and terminal values developed in connection with the discounted cash flow; excess working capital levels; real estate values; and the anticipated costs involved in the selling process. The Company recognizes operations as discontinued when the operations have either been disposed of, or are expected to be disposed of in a sale transaction in the near term. The operations and cash flows of all discontinued operations have been eliminated, or will be eliminated upon consummation of the expected sale transaction, and the Company will not have any significant continuing involvement in the discontinued operations subsequent to the expected sale transaction.

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 compensation plans. Under this method, no compensation expense was recognized with respect to options granted under the Company s stock-based compensation 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 Class A Stock and Common Stock outstanding as of May 30, 2006 granted to employees (including executive officers) and outside directors of the Corporation, as described below (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 June 1, 2006 adoption of SFAS No. 123R, Share Based Payment (SFAS No. 123R), by the Company.

The Company adopted the fair value recognition provisions of SFAS No. 123R, which revises SFAS No. 123, Accounting for Stock-Based Compensation (SFAS No. 123), using the modified prospective method. SFAS No. 123R requires the Company to recognize the cost of employee and director services received in exchange for any stock-based awards. Under SFAS No. 123R, the Company recognizes compensation expense 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 following table illustrates the effect on net income and earnings per share if the Company had applied the fair value recognition provisions of SFAS No. 123 to its stock-based compensation expense for the fiscal year ended May 31, 2006:

Net income as reported	$	68.6
Add: Stock-based compensation expense included in reported net income, net of tax		0.6
Deduct: Total stock-based compensation expense determined under fair value based method, net of tax		23.8
Net income - pro forma	**$**	**45.4**

Earnings per share as reported		
Basic	$	1.65
Diluted		1.63
Earnings per share pro forma		
Basic	$	1.09
Diluted		1.08

Under SFAS No. 123R, 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 Company s 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 No. 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 Company s 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-based 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.

The weighted average fair value of options granted during fiscal 2008, 2007, and 2006 using the Black-Scholes option pricing model was $13.05, $12.22, and $13.68 per share, respectively. For purposes of pro forma disclosure, the estimated fair value of the options is amortized over the options vesting periods, including the effect of the Acceleration.

The following table provides the significant weighted average assumptions used in determining the estimated weighted average fair value for options granted by the Company during fiscal 2008, 2007 and 2006 under the Black-Scholes option pricing model. 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 used was zero, based on the fact that the Corporation had not declared any cash dividends through May 31, 2008. See Note 17 of Notes to Consolidated Financial Statements in Item 8, Consolidated Financial Statements and Supplementary Data .

	2008	2007	2006
Expected dividend yield	0.0%	0.0%	0.0%
Expected stock price volatility	31.17%	32.89%	37.46%
Risk-free interest rate	3.88%	4.68%	4.22%
Expected life of options	6 years	6 years	5 years

New Accounting Pronouncements

In September 2006, 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 is effective for financial statements issued for fiscal years beginning after November 15, 2007 and interim periods within those fiscal years, with early adoption permitted for all assets and liabilities that have not been specifically deferred. In February 2008, the FASB issued FASB Staff Position (FSP) No. FAS 157-1, Application of FASB Statement No. 157 to FASB Statement No. 13 and Other Accounting Pronouncements That Address Fair Value Measurements for Purposes of Lease Classification or Measurement under Statement 13 and FSP No. FAS 157-2, Effective Date of FASB Statement No. 157 . Collectively, these Staff Positions allow a one-year deferral of adoption of SFAS 157 for nonfinancial assets and nonfinancial liabilities that are recognized or disclosed at fair value in the financial statements on a nonrecurring basis and amend SFAS 157 to exclude FASB Statement No. 13 and its related interpretive accounting pronouncements that address leasing transactions 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.

In February 2007, the FASB issued SFAS No. 159, The Fair Value Option for Financial Assets and Financial Liabilities (SFAS 159), to provide companies with an option to report selected financial assets and liabilities at fair value. The objective of SFAS 159 is to reduce both the complexity in accounting for financial instruments and the volatility in earnings caused by measuring related assets and liabilities differently. SFAS 159 will become effective for the Company s fiscal year beginning June 1, 2008. The Company is currently evaluating the impact, if any, that SFAS 159 will have on its consolidated financial position, results of operations and cash flows.

In December 2007, the FASB issued SFAS No. 141 (revised), Business Combinations (SFAS 141R). SFAS 141R establishes principles and requirements for how an acquiror accounts for business combinations. SFAS 141R includes guidance for the recognition and measurement of the identifiable assets acquired, the liabilities assumed, and any noncontrolling or minority interest in the acquiree. It also provides guidance for the measurement of goodwill, the recognition of contingent consideration, the accounting for pre-acquisition gain and loss contingencies and acquisition-related transaction costs, and the recognition of changes in the acquiror s income tax valuation allowance. SFAS 141R applies prospectively and is effective for business combinations made by the Company beginning June 1, 2009.

In December 2007, the FASB issued SFAS No. 160, Noncontrolling Interests in Consolidated Financial Statements, an amendment of ARB No. 51, (SFAS 160). SFAS 160 amends Accounting Research Bulletin No. 51, Consolidated Financial Statements, to establish accounting and reporting standards for any noncontrolling interest in a subsidiary and for the deconsolidation of a subsidiary. SFAS 160 clarifies that a noncontrolling interest in a subsidiary should be reported as a component of equity in the consolidated financial statements and requires disclosure, on the face of the consolidated statement of operations, of the amounts of consolidated net income attributable to the parent and to the noncontrolled interest. SFAS 160 is effective for the Company beginning June 1, 2009 and is to be applied prospectively, except for the presentation and disclosure requirements, which upon adoption will be applied retrospectively for all periods presented. The Company is currently evaluating the impact, if any, that SFAS 160 will have on its consolidated financial position, results of operations and cash flows.

In April 2008, the FASB issued FSP No. FAS 142-3, Determination of the Useful Life of Intangible Assets (FAS 142-3). FAS 142-3 amends the factors that should be considered in developing renewal or extension assumptions used to determine the useful life of a recognized intangible asset under FASB Statement No. 142, Goodwill and Other Intangible Assets . FAS 142-3 is effective for fiscal years beginning after December 15, 2008 and early adoption is prohibited. The Company is currently evaluating the

impact, if any, that FAS 142-3 will have on its consolidated financial position, results of operations and cash flows.

2. RESTATEMENT

In previous filings, the Company treated the *Children s Book Publishing and Distribution* (CBPD) operating segment as a single reporting unit, which included the domestic portion of its Direct to Home continuity business located in the United States. The Company had determined that the components of this segment had similar economic characteristics, and accordingly, the Company annually assessed goodwill for impairment at the CBPD operating segment level, resulting in no impairment of goodwill until the Company decided to divest the DTH business in December 2007. The DTH business includes the domestic portion of the Company s Direct to Home business located in the United States and the international portion located in the United Kingdom and Canada as well as the Maumelle Facility. The Company, in connection with the decision to divest the DTH business, determined that the DTH business should be accounted for as a discontinued operation. Accordingly, the Company allocated $4.3 of goodwill to the DTH business based upon the relative fair values of the domestic portion of the DTH business compared to the total CBPD segment. The Company assessed the recoverable value of the discontinued DTH business, and then concluded that the $4.3 of goodwill was fully impaired and recognized this impairment in the third quarter of 2008.

Subsequently, the Company reassessed its accounting regarding goodwill impairment and concluded that the domestic portion of the DTH business did not have sufficiently similar economic characteristics compared to the other components of the CBPD segment in the current period or in historical periods. For purposes of goodwill testing, the domestic portion of the DTH business had incorrectly been aggregated with the CBPD segment since 2001. Accordingly, the Company determined the domestic portion of the DTH business should have been treated as a reporting unit and goodwill attributable to the domestic portion of the DTH business should have been assessed at the Direct to Home reporting unit level (the DTH reporting unit which consists of the domestic Direct to Home portion of the DTH business).

The Company determined that goodwill historically attributable to the DTH reporting unit was $92.4 after consideration of the original source of the goodwill within the CBPD segment and other factors. The Company then reapplied the historical annual impairment testing for the goodwill attributed to the DTH reporting unit for prior periods, utilizing internally developed forecasts of the domestic portion of the DTH business available at the time the test would have been performed. Based upon these analyses, the Company determined that the carrying value of the DTH reporting unit exceeded the fair value of the DTH reporting unit in 2005. The decline in profitability of the DTH business was primarily a result of the federal Do Not Call legislation, which negatively impacted the business marketing programs. Accordingly, the Company determined that all $92.4 of goodwill ($61.0 after recognition of deferred tax benefits) attributable to the DTH reporting unit was impaired as of May 31, 2005.

The Company is restating its historical financial statements by recognizing a corresponding reduction to net income of $61.0 in 2005, and the elimination of the $4.3 impairment of goodwill, which is now included in discontinued operations, in the quarter ended February 29, 2008. These non cash adjustments did not impact the Company s cash flows provided by operating activities for the periods presented. Accordingly, the Company s presentations at the end of the indicated fiscal periods appearing herein are restated as follows:

	As Previously Reported	Adjustments	Restated
As of May 31, 2005:			
Retained earnings	$ 543.3	$ (61.0)	$ 482.3
As of May 31, 2006:			
Goodwill	253.1	(92.4)	160.7
Noncurrent deferred income taxes	4.5	31.4	35.9
Retained earnings	611.9	(61.0)	550.9
As of May 31, 2007:			
Goodwill	265.9	(92.4)	173.5
Noncurrent deferred income taxes	6.1	31.4	37.5
Retained earnings	672.8	(61.0)	611.8
As of February 29, 2008:			
Goodwill	260.4	(88.1)	172.3
Other assets and deferred charges (including deferred income taxes)	78.0	29.9	107.9
Loss from discontinued operations, net of tax	77.5	(2.8)	74.7
Retained earnings	657.1	(58.2)	598.9

Note: Goodwill amounts above are related to discontinued operations, including the impact of the impairment, and the related deferred tax balances are included in discontinued operations.

3. DISCONTINUED OPERATIONS

During the three months ended February 29, 2008, the Company announced that it intends to sell the DTH business, which includes both the domestic portion and the international portion located in the United Kingdom and Canada, as well as the Maumelle Facility. During the three months ended May 31, 2008, the Company ceased operations of its School Continuities business, a component of the *Children s Book Publishing and Distribution* segment. The Company determined that absent the DTH business, there would be insufficient infrastructure to successfully support the School Continuities business. Accordingly, this business has been classified as a discontinued operation in the current period.

In accordance with SFAS No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets (SFAS 144), the results of operations for the DTH business are presented in the Company s Condensed Consolidated Financial Statements as discontinued operations. The Company currently anticipates that the sale will be completed during the calendar year 2008.

SFAS 144 requires adjustments to the carrying value of assets held for sale if the carrying value exceeds their estimated fair value, less cost to sell. The calculation of estimated fair value less cost to sell includes significant estimates and assumptions, including, but not limited to: operating projections and the discount rate and terminal values developed in connection with the discounted cash flow; excess working capital levels; real estate fair values; and the anticipated costs involved in the selling process. In addition, as a result of the Company s decision to sell the DTH business, the Company prepared separate financial statements reflecting the discontinued operations presentation, which required management to make significant judgments and estimates for purposes of allocating to the discontinued operations certain operating expenses, such as warehousing and distribution expenses, as well as assets, liabilities and other balance sheet items, including accounts payable and certain noncurrent liabilities. As a result of the analysis made by the Company as required by SFAS No. 144, the Company recorded non-cash impairment charges totaling $153.6 and a tax benefit of $55.4, resulting in a charge of $98.2, net of tax, during the twelve month period ended May 31, 2008 to reflect the DTH disposal group at its estimated fair value less cost to sell. If a sale is consummated at a selling price lower (or higher) than the estimated fair value less cost to sell, the Company would incur a loss (or gain) on the sale.

The following table summarizes the operating results of the discontinued operations for the fiscal years ended May 31:

	2008	2007	2006
Revenues	$ 207.0	$ 257.2	$ 231.6
Non-cash impairment charge	153.6		
Loss before income taxes	200.0	22.1	3.7
Income tax benefit (expense)	72.2	7.9	(0.1)
Loss from discontinued operations, net of tax	**$ 127.8**	**$ 14.2**	**$ 3.8**

The following table sets forth the assets and liabilities of the discontinued operations included in the Condensed Consolidated Balance Sheets of the Company as of May 31:

	2008	2007
Accounts receivable, net	$ 15.8	$ 63.1
Inventories, net	4.6	47.5
Deferred promotion costs		44.4
Other assets	10.3	5.5
Current assets of discontinued operations	$ 30.7	$ 160.5
Property, plant and equipment		24.6
Acquired intangible assets, net		28.5
Other assets		16.3

Noncurrent assets of discontinued operations	$		$	69.4
Accounts payable		8.0		13.6
Accrued expenses and other current liabilities		8.5		10.6
Current liabilities of discontinued operations	$	16.5	$	24.2
Other liabilities				1.3
Noncurrent liabilities of discontinued operations	$		$	1.3

4. 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, 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 online 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 and audio products, 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.

The following table sets forth information for the three fiscal years ended May 31 for the Company s segments.

	Children s Book Publishing and Distribution[1]	Educational Publishing	Media, Licensing and Advertising	Overhead[1][2]	Total Domestic	International[1]	Total
2008							
Revenues	$ 1,164.7	$ 414.1	$ 156.2	$	$ 1,735.0	$ 470.6	$ 2,205.6
Bad debt	5.8	(0.9)	0.6		5.5	5.9	11.4
Depreciation and amortization[3]	18.4	3.3	2.2	33.3	57.2	7.4	64.6
Amortization[4]	12.4	24.6	6.8		43.8	2.4	46.2
Royalty advances expensed	23.2	1.2	0.6		25.0	3.8	28.8
Operating income (loss)	169.0	64.6	10.4	(76.8)	167.2	39.5	206.7
Segment assets	645.1	328.7	69.0	359.7	1,402.5	328.4	1,730.9
Goodwill	38.2	93.0	9.8		141.0	31.3	172.3
Expenditures for long-lived assets	54.9	36.5	14.5	22.4	128.3	16.9	145.2
Long-lived assets	194.4	189.2	33.0	247.3	663.9	118.7	782.6
2007 Restated							
Revenues	$ 937.7	$ 412.8	$ 162.4	$	$ 1,512.9	$ 409.0	$ 1,921.9
Bad debt	4.9	1.0	1.8		7.7	5.1	12.8
Depreciation and amortization[3]	16.2	4.1	3.0	32.6	55.9	7.6	63.5
Amortization[4]	15.3	28.4	11.2		54.9	2.0	56.9
Royalty advances expensed	19.5	1.4	1.1		22.0	3.0	25.0
Operating income (loss)	95.5	76.3	15.9	(77.8)	109.9	35.7	145.6
Segment assets	458.8	361.9	63.0	400.1	1,283.8	303.0	1,586.8
Goodwill	39.3	94.2	9.8		143.3	30.2	173.5
Expenditures for long-lived assets	57.4	33.0	12.4	18.0	120.8	12.8	133.6
Long-lived assets	162.1	214.4	27.9	261.0	665.1	111.1	776.5
2006 Restated							
Revenues	$ 1,111.3	$ 416.1	$ 151.6	$	$ 1,679.0	$ 373.2	$ 2,052.2
Bad debt	5.1	4.7	0.7		10.5	4.3	14.8
Depreciation and amortization[3]	15.7	3.8	1.4	36.3	57.2	5.6	62.8
Amortization[4]	14.9	28.0	19.4		62.3	4.0	66.3
Royalty advances expensed	26.6	2.2	2.0		30.8	2.7	33.5
Operating income (loss)	121.2	69.3	10.1	(81.6)	119.0	24.7	143.7
Segment assets	553.4	349.4	70.0	519.0	1,491.8	282.3	1,774.1
Goodwill	39.2	82.5	9.8		131.5	29.2	160.7
Expenditures for long-lived assets	55.4	28.8	20.3	25.8	130.3	13.9	144.2
Long-lived assets	172.6	206.9	33.6	271.0	684.1	108.3	792.4

(1) As discussed in Note 2, Discontinued Operations, the domestic portion of the DTH business, the international portion of the DTH business, located in the United Kingdom and Canada, and the Maumelle Facility as well as the Company s SC business were reclassified as discontinued operations and, as such, are not reflected in this table.

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

(3) Includes depreciation of property, plant and equipment and amortization of intangible assets, but excludes amortization of promotion costs.

(4) Includes amortization of prepublication costs and production costs, but excludes amortization of promotion costs.

5. DEBT

The following summarizes debt as of May 31:

	Carrying Value	Fair Value	Carrying Value	Fair Value
	2008		2007	
Lines of credit	$ 11.8	$ 11.8	$ 66.2	$ 66.2
Loan Agreement:				
Revolving Loan				
Term Loan	178.6	178.6		
5% Notes due 2013, net of discount	159.3	134.8	173.4	155.9
Total debt	**349.7**	**325.2**	**239.6**	**222.1**
Less lines of credit, short-term debt and current portion of long-term debt	(54.6)	(54.6)	(66.2)	(66.2)
Total long-term debt	$ 295.1	$ 270.6	$ 173.4	$ 155.9

Short-term debt s carrying value approximates fair value. Fair value of the Loan Agreement approximates its carrying value due to its variable interest rate. Fair values of the Notes were estimated based on market quotes, where available, or dealer quotes.

The following table sets forth the maturities of the carrying values of the Company s debt obligations as of May 31, 2008 for fiscal years ended May 31:

2009	$ 54.6
2010	42.8
2011	42.8
2012	42.8
2013	166.7
Thereafter	0.0
Total debt	**$ 349.7**

Loan Agreement

On June 1, 2007, Scholastic Corporation and Scholastic Inc. (each, a Borrower and together, the Borrowers) elected to replace the Company s then-existing credit facilities, the Credit Agreement and the Revolver (as discussed below), with a new $525.0 credit facility with certain banks (the Loan Agreement), consisting of a $325.0 revolving credit component (the Revolving Loan) and a $200.0 amortizing term loan component (the Term Loan). The Loan Agreement is a contractually committed unsecured credit facility that is scheduled to expire on June 1, 2012. The $325.0 Revolving Loan component allows the Company to borrow, repay or prepay and reborrow at any time prior to the stated maturity date, and the proceeds may be used for general corporate purposes, including financing for acquisitions and share repurchases. The Loan Agreement also provides for an increase in the aggregate Revolving Loan commitments of the lenders of up to an additional $150.0. The $200.0 Term Loan component was established in order to fund the purchase by the Corporation of shares of its Common Stock pursuant to an Accelerated Share Repurchase Agreement (see Note 10, Treasury Stock) and was fully drawn on June 28, 2007 in connection with that transaction. The Term Loan, which may be prepaid at any time without penalty, requires quarterly principal payments of $10.7, with the first payment on December 31, 2007, and a final payment of $7.4 due on June 1, 2012. Interest on both the Term Loan and 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). At the election of the Borrower, the interest rate charged for each loan made under the Loan Agreement is based on (1) a rate equal to the higher of (a) the prime rate or (b) the prevailing Federal Funds rate plus 0.5% or (2) an adjusted LIBOR rate plus an applicable margin, ranging from 0.50% to 1.25% based on the Company s prevailing consolidated debt to total capital ratio. As of May 31, 2008, the applicable margin on the Term Loan was 0.875% and the applicable margin on the Revolving Loan was 0.70%. The Loan Agreement also provides for the payment of a facility fee ranging from 0.125% to 0.25% per annum on the Revolving Loan only, which at May 31, 2008 was 0.175%. As of May 31, 2008, $178.6 was outstanding under the Term Loan at an interest rate of 3.8%. There were no outstanding borrowings under the Revolving Loan as of May 31, 2008. 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, 2008 the Company was in compliance with these covenants.

Credit Agreement and Revolver

The Loan Agreement replaced the Company s Credit Agreement and Revolver. The Credit Agreement was a $190.0 unsecured revolving credit facility and the Revolver was a $40.0 unsecured revolving loan agreement, both of which were scheduled to expire in 2009 but were terminated, at the election of the Borrowers, as of June 1, 2007. There were no outstanding borrowings under the Credit Agreement or Revolver at May 31, 2007.

5% Notes due 2013

In April 2003, Scholastic Corporation issued $175.0 of 5% Notes (the 5% Notes). The 5% Notes are senior unsecured obligations that mature on April 15, 2013. Interest on the 5% Notes is payable semi-annually on April 15 and October 15 of each year through maturity. The Company may at any time redeem all or a portion of the 5% Notes at a redemption price (plus accrued interest to the date of the redemption) equal to the greater of (i) 100% of the principal amount, or (ii) the sum of the present values of the remaining

scheduled payments of principal and interest discounted to the date of redemption. In fiscal year 2008, the Company repurchased $14.5 of the 5% Notes on the open market.

Lines of Credit

During the fourth quarter of fiscal 2008 and 2007, the Company entered into unsecured money market bid rate credit lines totaling $50.0, respectively. There were no outstanding borrowings under these credit lines at May 31, 2008 and $41.0 was outstanding at May 31, 2007. All loans made under these credit lines are at the sole discretion of the lender and at an interest rate and term, not to exceed 364 days, agreed to at the time each loan is made. The weighted average interest rate for all money market bid rate loans outstanding on May 31, 2007 was 6.2%. These credit lines are typically available for loans up to 364 days and may be renewed, if requested by the Company, at the sole option of the lender.

As of May 31, 2008, the Company had various local currency credit lines, with maximum available borrowings in amounts equivalent to $70.6, underwritten by banks primarily in the United States, Canada and the United Kingdom. These credit lines are typically available for overdraft borrowings or loans up to 364 days and may be renewed, if requested by the Company, at the sole option of the lender. There were borrowings outstanding under these facilities equivalent to $11.8 at May 31, 2008 at a weighted average interest rate of 6.4%, as compared to the equivalent of $25.2 at May 31, 2007 at a weighted average interest rate of 7.0%.

6. COMMITMENTS AND CONTINGENCIES

Lease obligations

The Company leases warehouse space, office space and equipment under various capital and operating leases over periods ranging from one to forty years. Certain of these leases provide for scheduled rent increases based on price-level factors. The Company generally does not enter into leases that call for contingent rent. In most cases, management expects that, in the normal course of business, leases will be renewed or replaced. Net rent expense relating to the Company s non-cancelable operating leases for the three fiscal years ended May 31, 2008, 2007 and 2006 was $47.7, $46.4 and $39.5, respectively.

The Company was obligated under capital leases covering land, buildings and equipment in the amount of $61.6 and $65.3 at May 31, 2008 and 2007, respectively. Amortization of assets under capital leases is included in depreciation and amortization expense.

The following table sets forth the composition of capital leases reflected as Property, Plant and Equipment in the consolidated balance sheets at May 31:

	2008	2007
Land	$ 3.5	$ 3.5
Buildings	39.0	39.0
Equipment	52.1	51.6
	94.6	94.1
Accumulated amortization	(53.0)	(47.3)
Total	**$ 41.6**	**$ 46.8**

The following table sets forth the aggregate minimum future annual rental commitments at May 31, 2008 under all non-cancelable leases for fiscal years ending May 31:

	Operating Leases	Capital Leases

2009	$ 39.8	$ 10.3
2010	30.6	8.6
2011	25.5	5.9
2012	22.3	5.7
2013	19.5	6.2
Thereafter	66.3	206.5
Total minimum lease payments	$ 204.0	243.2
Less amount representing interest		(181.6)
Present value of net minimum capital lease payments		61.6
Less current maturities of capital lease obligations		4.9
Long-term capital lease obligations		**$ 56.7**

Other Commitments

The Company had contractual commitments relating to royalty advances at May 31, 2008 totaling $3.2. The aggregate annual commitments for royalty advances are as follows: fiscal 2009 $1.7; fiscal 2010 $1.0; fiscal 2011 $0.4; fiscal 2012 $0.1.

The Company had contractual commitments relating to minimum print quantities at May 31, 2008 totaling $420.9. The annual commitments relating to minimum print quantities are as follows: fiscal 2009 $38.5; fiscal 2010 $31.0; fiscal 2011 $31.7; fiscal 2012 $32.4; fiscal 2013 $33.2; thereafter $254.1.

At May 31, 2008 and 2007, the Company had open standby letters of credit of $8.4 issued under certain credit lines. These letters of credit 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.

Contingencies

Alaska Laborers and Employers Retirement Fund v. Scholastic Corp., et al., 07 Civ.7402 (S.D.N.Y., filed 8/20/2007); Baicu v. Scholastic Corp., et al., 07 Civ.8251 (S.D.N.Y., filed 9/21/2007). These complaints (which are virtually indentical) were filed as class actions alleging securities fraud relating to statements made by the Company concerning its operations and financial results between March 2005 and March 2006. They were consolidated on November 8, 2007. A final, consolidated complaint was filed on January 11, 2008, seeking unspecified compensatory damages, costs and attorney fees. The Company filed a motion to dismiss on February 27, 2008, which was argued on June 25, 2008 and is awaiting decision by the court. The Company believes that the allegations in the complaint are without merit and is vigorously defending the lawsuit.

Various claims and lawsuits arising in the normal course of business are pending against the Company. The results of these proceedings are not expected to have a material adverse effect on the Company s consolidated financial position or results of operations.

7. INVESTMENT

Included in the Other Assets and Deferred Charges Section of the Company s Consolidated Balance Sheets were investments of $40.1 and $38.9 at May 31, 2008 and May 31, 2007, respectively.

In fiscal 2007, the Company participated in the organization of a new entity, the Children s Network Venture LLC (Children s Network), that produces and distributes educational children s television programming under the name qubo. Since inception in August 2006, the Company has contributed a total of $3.5 in cash and certain rights to existing television programming to the Children s Network. The Company s investment, which consists of a 12.25% equity interest, is accounted for using the equity method of accounting. The net value of this investment at May 31, 2008 was $1.0.

In fiscal 2003, the Company entered into a joint venture with The Book People, Ltd., a direct marketer of books in the United Kingdom, to distribute books to the home under the Red House name and through schools under the School Link name. The Company also acquired a 15% equity interest in The Book People Ltd. s parent company, The Book People Group Ltd., for £12.0 with a possible £3.0 additional payment based on operating results and the satisfaction of certain conditions. As part of the transaction, the Company established a £3.0 loan agreement on June 19, 2002 in favor of The Book People Group, Ltd., which is available to fund the expansion of The Book People Group, Ltd. and for working capital purposes. The Company has also established a working capital loan agreement in favor of The Book People, Ltd. to help fund inventory purchases for the joint venture, with an amount of available credit that varies annually in accordance with a formula based on certain financial metrics for the prior fiscal year. At both May 31, 2008 and May 31, 2007, the available credit under this facility was approximately £1. As of May 31, 2008, a total of approximately £4 (equivalent to $8.1 at that date) was outstanding under these revolving credit facilities.

8. GOODWILL AND OTHER INTANGIBLES

Goodwill and other intangible assets with indefinite lives are reviewed for impairment annually or more frequently if impairment indicators arise.

The following table summarizes the activity in Goodwill for the fiscal years ended May 31:

	2008	2007 Restated
Beginning balance	$ 173.5	$ 160.7
Additions due to acquisitions		11.7
Other adjustments	(1.2)	1.1
Ending Balance	**$ 172.3**	**$ 173.5**

In fiscal 2007, Additions due to acquisitions primarily reflected the acquisition of all of the outstanding shares of a school consulting and professional development services company.

The following table summarizes Other intangibles subject to amortization as of May 31:

	2008	2007
Customer lists	$ 3.2	$ 3.2
Accumulated amortization	(3.0)	(2.9)
Net customer lists	0.2	0.3
Other intangibles	8.7	8.7
Accumulated amortization	(5.4)	(3.0)
Net other intangibles	3.3	5.7
Total	**$ 3.5**	**$ 6.0**

Amortization expense for Other intangibles totaled $2.5 for the fiscal years ended May 31, 2008 and $0.2 for May 31, 2007. Amortization expense for these assets is currently estimated to total $0.6 for the fiscal years ending May 31, 2009 through 2011 and $0.5 for the fiscal years ending May 31, 2012 and 2013. Intangible assets with definite lives consist principally of customer lists and covenants not to compete. Intangible assets with definite lives are amortized over their estimated useful lives.

The following table summarizes Other intangibles not subject to amortization as of May 31:

	2008	2007
Net carrying value by major class:		
Titles	$ 28.7	$ 28.7
Trademarks and other	15.3	15.3
Total	**$ 44.0**	**$ 44.0**

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9. INCOME TAXES

The provisions for income taxes for the fiscal years ended May 31, 2008, 2007 and 2006 are based on earnings from continuing operations before taxes as follows:

	2008	2007	2006
United States	$ 161.6	$ 97.5	$ 98.9
Non-United States	17.9	20.2	12.5
Total	**$ 179.5**	**$ 117.7**	**$ 111.4**

The provisions for income taxes attributable to earnings from continuing operations for the fiscal years ended May 31, 2008, 2007 and 2006 consist of the following components:

	2008	2007	2006
Federal			
Current	$ 51.2	$ 20.7	$ 22.0
Deferred	2.5	11.3	7.5
	$ 53.7	**$ 32.0**	**$ 29.5**
State and local			
Current	$ 6.0	$ 4.5	$ 4.3
Deferred	0.2	(0.5)	(0.2)
	$ 6.2	**$ 4.0**	**$ 4.1**
International			
Current	$ 9.3	$ 7.6	$ 5.4
Deferred	(0.3)	(1.0)	0.0
	$ 9.0	**$ 6.6**	**$ 5.4**
Total			
Current	**$ 66.5**	**$ 32.7**	**$ 31.7**
Deferred	**2.4**	**9.8**	**7.3**
	$ 68.9	**$ 42.6**	**$ 39.0**

The provisions for income taxes for the fiscal years ended May 31, 2008, 2007 and 2006 differ from the amount of tax determined by applying the federal statutory rate as follows:

	2008	2007	2006
Computed federal statutory provision	$ 62.8	$ 41.2	$ 39.0
State income tax provision, net of federal income tax benefit	5.9	4.0	4.1
Difference in effective tax rates on earnings of foreign subsidiaries	3.6	2.5	2.4

Charitable contributions	(0.5)	(0.9)	(0.5)
Tax credits	(0.2)	(4.7)	(2.9)
Other net	(2.7)	0.5	(3.1)
Total provision for income taxes	**$ 68.9**	**$ 42.6**	**$ 39.0**
Effective tax rates	**38.3%**	**36.2%**	**35.0%**

The undistributed earnings of foreign subsidiaries at May 31, 2008 were $43.1. Any remittance of foreign earnings would not result in any significant additional tax.

The following table sets forth the tax effects of items that give rise to deferred tax assets and liabilities at May 31, 2008 and 2007 including deferred tax assets of discontinued operations:

	2008	2007
Net deferred tax assets:		
Tax uniform capitalization	$ 25.3	$ 19.1
Inventory reserves	34.5	20.1
Allowance for doubtful accounts	18.2	18.2
Other reserves	19.2	15.9
Post-retirement, post-employment and pension obligations	27.4	24.1
Tax carryforwards	19.5	21.7
Lease accounting	8.7	8.4
Prepaid expenses	0.1	(16.0)
Depreciation and amortization	(7.7)	(48.0)
Other net	15.3	1.1
Subtotal	160.5	64.6
Valuation allowance	(14.5)	(13.0)
Total net deferred tax assets	**$ 146.0**	**$ 51.6**

On June 1, the Company adopted the provisions of FIN 48 which clarifies the accounting for uncertainty in income tax positions. Upon adoption, the Company recognized an increase in the liability for unrecognized tax benefits of approximately $34.0, an increased deferred tax asset of $27.6 and a reduction to the June 1, 2007 balance of retained earnings of $6.4. As of June 1, 2007, the total amount of unrecognized tax benefits was $40.2, of which $6.2 represented accruals for interest and penalties. Of this total, approximately $12.2 represents the total amount of unrecognized tax benefits that if recognized, would affect the effective tax rate. Included in the balance at June 1, 2007, are $21.0 of tax positions for which the ultimate deductibility is highly certain but for which there is uncertainty about the timing of such deductibility. Because of the impact of deferred tax accounting, other than interest and penalties, the disallowance of the shorter deductibility period would not affect the annual effective tax rate but would accelerate the payment of cash to the taxing authority to an earlier period. The Company s policy is to classify interest and penalties related to unrecognized tax benefits as part of its income tax provision.

A reconciliation of the beginning and ending amount of unrecognized tax benefits is as follows:

Gross unrecognized tax benefits at June 1, 2007	$ 34.0
Gross Decreases of Tax Positions for Prior Years	(5.4)
Gross Increase in Tax Positions for Current Year	4.7
Settlements	0
Lapse of Statute of Limitation	(0.2)
Gross unrecognized tax benefits at May 31, 2008	33.1

The net reductions in unrecognized tax benefits in the above table were primarily due to changes in judgment. Of the additions of $4.7, $4.0 were attributable to uncertainties in current year tax positions of deductions that were offset by a decrease to current taxes payable. Factors that could cause the recognition of tax benefits include but are not limited to statutory limitations on audits, the settlement of audits with tax authorities, changes in law and changes in estimates.

The Company, including subsidiaries, files income tax returns in the U.S., various states, and foreign jurisdictions. The Company is routinely audited by various tax authorities. The Company is no longer subject to an income tax examination by the Internal Revenue Service for the years ended on or before May 31, 2003 due to the expiration of the statute of limitations. The Company has been selected for audit by the Internal Revenue Service for its fiscal years ended May 2004, 2005 and 2006. The Company is also currently under audit by both New York State and New York City for fiscal years ended May 2002, 2003 and 2004. It is possible that federal, state and foreign tax examinations will be settled

during the next twelve months. If any of these tax examinations are concluded within the next twelve months, the Company will make any necessary adjustments to its unrecognized tax benefits. The statute of limitations in select state and local jurisdictions is expected to expire within the next twelve months and may result in a decrease of unrecognized tax benefits and accrued interest of $0.3. It is not practicable to estimate the range of reasonably possible changes to unrecognized tax benefits for the upcoming 12 months due in part to the timing and resolution of outstanding audits.

The total amount of unrecognized tax benefits as of May 31, 2008 was $39.8 of which $6.7 represented accruals for interest and penalties. Approximately $11.5 of this amount would, if recognized, impact income tax expense and have an impact on the effective income tax rate. Accrued interest and penalties totaled $6.7 at May 31, 2008.

Total net deferred tax assets of $146.0 at May 31, 2008 and $51.6 at May 31, 2007 include $20.9 and $6.4 in Other accrued expenses at May 31, 2008 and 2007, respectively, and $(7.4) and $19.6 in Other noncurrent liabilities at May 31, 2008 and 2007, respectively.

At May 31, 2008, the Company had a charitable deduction carryforward of $9.3, which expires in various amounts during the fiscal years ending 2009 through 2010, and federal and state operating loss carryforwards of $2.8 and $15.0, respectively, which expire annually in varying amounts if not utilized. The Company also had foreign operating loss carryforwards of $52.1 at May 31, 2008, which either expire at various dates or do not expire.

For the years ended May 31, 2008 and 2007, the valuation allowance increased by $1.5 and $2.3, respectively.

The Company does not anticipate to repatriate amounts permanently invested in foreign wholly-owned subsidiaries.

10. CAPITAL STOCK AND STOCK-BASED AWARDS

Scholastic Corporation has authorized capital stock of: 4,000,000 shares of Class A Stock; 70,000,000 shares of Common Stock; and 2,000,000 shares of Preferred Stock.

In fiscal 2007, the Board adopted, and the holders of the Class A Stock (the Class A Stockholders) approved, an amendment to the Corporation s Amended and Restated Certificate of Incorporation to increase the number of authorized shares of Class A Stock by 1,500,000, from 2,500,000 shares to 4,000,000 shares.

Class A Stock and Common Stock

The only voting rights vested in the holders of Common Stock, except as required by law, are the election of such number of directors as shall equal at least one-fifth of the members of the Board. The Class A Stockholders are entitled to elect all other directors and to vote on all other matters. The Class A Stockholders and the holders of Common Stock are entitled to one vote per share on matters on which they are entitled to vote. The Class A Stockholders have the right, at their option, to convert shares of Class A Stock into shares of Common Stock on a share-for-share basis.

With the exception of voting rights and conversion rights, and as to the rights of holders of Preferred Stock if issued, the Class A Stock and the Common Stock are equal in rank and are entitled to dividends and distributions, when and if declared by the Board.

At May 31, 2008, there were 1,656,200 shares of Class A Stock and 36,444,518 shares of Common Stock outstanding. At May 31, 2008, there were 1,499,000 shares of Class A Stock authorized for issuance under the Company s stock-based compensation plans. At May 31, 2008, Scholastic Corporation had reserved for issuance 6,556,226 shares of Common Stock, which includes both shares of Common Stock that were reserved for issuance under the Company s stock-based compensation plans and the 2,905,200 shares of Common Stock that were reserved for the potential issuance of Common Stock upon conversion of the outstanding shares of Class A Stock and the shares of Class A Stock that were reserved for issuance under the Company s stock-based compensation plans.

Preferred Stock

The Preferred Stock may be issued in one or more series, with the rights of each series, including voting rights, to be determined by the Board before each issuance. To date, no shares of Preferred Stock have been issued.

Stock-based awards
At May 31, 2008, the Company maintained two stockholder-approved employee stock-based compensation plans with regard to the Common Stock: 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; options that are not so qualified, called non-qualified stock options; restricted stock; and other stock-based awards.

Stock Options At May 31, 2008, non-qualified stock options to purchase 1,394,442 shares and 2,517,846 shares of Common Stock were outstanding under the 1995 Plan and 2001 Plan, respectively. During fiscal 2008, the Company awarded 625,500 options under the 2001 plan at a weighted average exercise price of $34.40. On July 18, 2007 and September 19, 2007, the Board and the Class A stockholders, respectively, approved an amendment to the 2001 Plan to increase the number of shares of Common Stock available for grant under that Plan by 2,000,000 shares. At May 31, 2008, 1,842,539 shares of Common Stock were available for additional awards under the 2001 Plan.

The Company also maintains the 1997 Outside Directors Stock Option Plan (the 1997 Directors Plan), a stockholder-approved stock option plan for outside directors under which no further awards may be made. The 1997 Directors Plan, as amended, provided 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 May 31, 2008, options to purchase 336,000 shares of Common Stock were outstanding under the 1997 Directors Plan.

In September 2007, the Corporation adopted the Scholastic Corporation 2007 Outside Directors Stock Option Plan (the 2007 Directors Plan). The 2007 Directors Plan 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 3,000 shares of Common Stock at a purchase price per share equal to the fair market value of a share of Common Stock on the date of grant and 1,200 restricted stock units. In September 2007, 24,000 options at an exercise price of $36.21 per share and 9,600 restricted stock units were granted under the 2007 Directors Plan. As of May 31, 2008, 24,000 options and 9,600 restricted stock units were outstanding under the 2007 Directors Plan and 466,400 shares remained available for additional awards under the 2007 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 to purchase Class A Stock (the Class A Options). In fiscal 2007, the Board adopted, and the Class A Stockholders approved, an amendment to the Class A Plan that increased the total number of shares of Class A Stock authorized for issuance under the Class A Plan by 749,000, from 750,000 shares to 1,499,000 shares. In fiscal 2008, the Company awarded 250,000 Class A Options to Mr. Robinson at an exercise price of $36.21 per share. At May 31, 2008, there were 1,249,000 Class A Options outstanding, and 250,000 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 its adoption of SFAS No. 123R, effective as of June 1, 2006, the Company incurred compensation expense of $3.2 in the aggregate, with regard to unvested stock options, for the year ended May 31, 2007, which is significantly lower than the amount

that would have been recorded in that period if the Acceleration had not been implemented. The total aggregate intrinsic value of stock options exercised during the year ended May 31, 2008 and 2007 was $10.1 and $8.7, respectively. The intrinsic value of these stock options is deductible by the Company for tax purposes. The total compensation cost for share-based payment arrangements recognized in income for fiscal 2008 and 2007 was $7.0 and $3.6, respectively. The total recognized tax benefit related thereto for fiscal 2008 and 2007 was $4.1 and $3.2, respectively. As of May 31, 2008, the total pre-tax compensation cost not yet recognized by the Company with regard to outstanding unvested stock options was $15.3. The weighted average period over which this compensation cost is expected to be recognized is 3.1 years.

The following table sets forth the stock option activity for the Class A Stock and Common Stock plans for the fiscal year ended May 31, 2008:

	Options	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (In years)	Aggregate Intrinsic Value
Outstanding at May 31, 2007	6,259,407	$ 31.21		
Granted	899,500	34.95		
Exercised	(1,357,174)	26.73		
Cancelled	(279,445)	37.89		
Outstanding at May 31, 2008	5,522,288	$ 32.58	5.7	$ 7.4
Vested and expected to vest at May 31, 2008	5,454,807	32.56	5.5	7.3
Exercisable at May 31, 2008	4,640,788	32.29	4.6	6.8

Restricted Stock Units In addition to stock options, the Company has issued restricted stock units to certain officers and key executives under the 2001 Plan (Stock Units). During fiscal 2008 and 2007, the Company granted 147,940 and 92,825 Stock Units, respectively, with a weighted average grant date price of $35.71 and $30.35 per share, respectively. Unless otherwise deferred, the Stock Units 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 beginning thirteen months from the grant date and thereafter annually on the anniversary of the grant date. There were 51,457 shares of Common Stock issued upon conversion of Stock Units during fiscal 2008. The Company measures the value of Stock Units at fair value based on the number of Stock Units granted at the price of the underlying Common Stock on the date of grant. The Company amortizes the fair value of outstanding stock units as stock-based compensation expense over the vesting term on a straight-line basis. In fiscal 2008 and 2007, the Company amortized $2.4 and $0.9, respectively, in connection with the outstanding Stock Units, recorded as a component of Selling, general and administrative expenses.

Management Stock Purchase Plan

The Company maintains a Management Stock Purchase Plan (MSPP), which allows certain members of senior management to defer up to 100% of their annual cash bonus payment in the form of restricted stock units (RSUs). The RSUs are purchased by the employee at a 25% discount from the lowest closing price of the Common Stock on NASDAQ during the fiscal quarter in which such bonuses are payable and are converted into shares of Common Stock on a one-for-one basis at the end of the applicable deferral period. During fiscal 2008, 2007 and 2006, the Company allocated 0 RSUs, 6,860 RSUs and 35,211 RSUs, respectively, to participants under the MSPP at a weighted average price of $0.00, $30.35 and $26.64 per RSU, respectively, resulting in an expense of $0.1, $0.1 and $0.3, respectively. At May 31, 2008, there were 250,258 shares of Common Stock authorized for issuance under the MSPP. There were 17,310 shares of Common Stock issued upon conversion of RSUs during fiscal 2008. The Company measures the value of RSUs at fair value based on the number of RSUs granted and the price of the underlying Common Stock at the date of grant, giving effect to the 25% discount. The Company amortizes the fair value of RSUs as stock-based compensation expense over the vesting term on a straight-line basis.

The following table sets forth Stock Unit and RSU activity for the year ended May 31, 2008:

	Stock Units	Weighted Average Grant-Date Fair Value
Nonvested as of May 31, 2007	236,581	$ 21.37
Granted	147,840	35.71
Vested	(51,457)	25.52
Forfeited	(28,135)	33.65
Nonvested as of May 31, 2008	308,993	$ 27.86

Employee Stock Purchase Plan

The Company maintains an Employee Stock Purchase Plan (the ESPP), which is offered to eligible United States employees. The ESPP previously permitted participating employees to purchase Common Stock, with after-tax payroll deductions, on a quarterly basis at a 15% discount from the lower of the closing price of the Common Stock on NASDAQ on the first or last business day of each fiscal quarter. Effective June 1, 2006, the Company amended the ESPP to provide that the 15% discount will be based solely on the closing price of the Common Stock on NASDAQ on the last business day of the fiscal quarter. Upon adoption of SFAS No. 123R, the Company began recognizing the fair value of the Common Stock issued under the ESPP as stock-based compensation expense in the quarter in which the employees participated in the plan. During fiscal 2008, 2007 and 2006, the Company issued 71,680 shares, 86,288 shares and 77,134 shares of Common Stock under the ESPP at a weighted average price of $28.87, $27.47and $28.08 per share, respectively. At May 31, 2008, there were 116,218 shares of Common Stock remaining authorized for issuance under the ESPP.

11. TREASURY STOCK

On June 1, 2007, the Corporation entered into an agreement with a financial institution to repurchase $200.0 of its outstanding Common Stock under an Accelerated Share Repurchase Agreement (the ASR). The entire $200.0 repurchase was executed under a collared transaction whereby a price range for the shares was established. Under the ASR, the Corporation initially received 5.1 million shares on June 28, 2007 (the Initial Execution Date), representing the minimum number of shares to be received based on a calculation using the cap or high-end of the price range collar. On October 29, 2007 (the Settlement Date), the Corporation received an additional 0.7 million shares at no additional cost, bringing the total number of shares repurchased under the ASR to 5.8 million shares, which is reflected in the Treasury Stock component of Stockholders Equity. The total number of shares received under the ASR was determined based on the adjusted volume weighted average price of the Common Stock, as defined in the ASR, during the four month period from the Initial Execution Date through the Settlement Date, which was $34.64 per share.

On December 20, 2007, the Corporation announced that its Board of Directors had authorized a program to repurchase up to $20.0 of Common Stock, from time to time as conditions allow, on the open market or through negotiated private transactions. During the five months ended May 31, 2008, the Corporation purchased approximately 0.7 shares on the open market for approximately $20.0 at an average cost of $30.09 per share. On May 28, 2008, the Corporation announced that its Board of Directors had authorized a new program to repurchase up to an additional $20.0 of Common Stock as conditions allow, on the open market or through negotiated private transactions. (See Part II, Item 5, Market for the Registrant s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities.)

12. EMPLOYEE BENEFIT PLANS

Pension Plans

The Company has a cash balance retirement plan (the Pension Plan), which covers the majority of United States employees who meet certain eligibility requirements. The Company funds all of the contributions for the Pension Plan. Benefits generally are based on the Company s contributions and interest credits allocated to participants accounts based on years of benefit service and annual pensionable earnings. It is the Company s policy to fund the minimum amount required by the Employee Retirement Income Security Act of 1974, as amended.

Scholastic Ltd., an indirect subsidiary of Scholastic Corporation located in the United Kingdom, has a defined benefit pension plan (the U.K. Pension Plan) that covers its employees who meet various eligibility requirements. Benefits are based on years of service and on a percentage of compensation near retirement. The U.K. Pension Plan is funded by contributions from Scholastic Ltd. and its employees.

Effective as of June 1, 2007, the U.K. Pension Plan was amended so that no further benefits will accrue to eligible employees under the existing defined benefit scheme. Affected employees were offered the choice to join either an existing Group Personal Pension Plan (the GPPP) or a newly established defined contribution scheme. Based upon the employee s selection, Scholastic Ltd. will (1) make a contribution to the GPPP that will vary based upon the contribution made by an eligible participant, or (2) make a fixed contribution to the newly established defined contribution scheme, provided the employee makes the minimum required contribution.

Grolier Ltd., an indirect subsidiary of Scholastic Corporation located in Canada, provides a defined benefit pension plan (the Grolier Canada Pension Plan) that covers its employees who meet certain eligibility requirements. All full-time employees are eligible to participate in the plan after two years of employment. Grolier Ltd. s contributions to the fund have been suspended due to an actuarial surplus. Employees are not required to contribute to the fund.

The Company s pension plans have a measurement date of May 31, 2008.

Post-Retirement Benefits

The Company provides post-retirement benefits to retired United States-based employees (the Post-Retirement Benefits) consisting of certain healthcare and life insurance benefits. A majority of these employees may become eligible for these benefits after completing certain minimum age and service requirements. At May 31, 2008, the unrecognized prior service cost remaining was $6.7.

The Medicare Prescription Drug, Improvement and Modernization Act (the Medicare Act) introduced a prescription drug benefit under Medicare (Medicare Part D) as well as a Federal subsidy of 28% to sponsors of retiree health care benefit plans providing a benefit that is at least actuarially equivalent to Medicare Part D. In response to the Medicare Act, the FASB issued Staff Position 106-2, Accounting and Disclosure Requirements Related to the Medicare Prescription Drug, Improvement and Modernization Act of 2003, to provide additional disclosure and guidance in implementing the federal subsidy provided by the Medicare Act. Based on this guidance, the Company has determined that the Post-Retirement Benefits provided to the retiree population are in aggregate the actuarial equivalent of the benefits under Medicare. As a result, in fiscal 2008, 2007 and 2006, the Company recognized a reduction of its accumulated post-retirement benefit obligation of $10.5, $10.2 and $9.2, respectively, due to the federal subsidy under the Medicare Act.

The following table sets forth the weighted average actuarial assumptions utilized to determine the benefit obligations for the Pension Plan, the U.K. Pension Plan and the Grolier Canada Pension Plan (collectively the Pension Plans), including the Post-Retirement Benefits, at May 31:

	Pension Plans		Post-Retirement Benefits	
	2008	2007	2008	2007
Weighted average assumptions used to determine benefit obligations:				
Discount rate	6.5%	5.8%	6.6%	6.0%
Rate of compensation increase	3.6%	3.6%		
Weighted average assumptions used to determine net periodic benefit cost:				
Discount rate	5.8%	5.9%	6.0%	6.1%
Expected long-term return on plan assets	8.5%	8.6%		
Rate of compensation increase	3.6%	3.6%		

To develop the expected long-term rate of return on assets assumption for the Pension Plans, the Company, with the assistance of its actuaries, considers historical returns and future expectations. Over the 15-20 year periods ended May 31, 2008, the returns on the portfolio, assuming it was invested at the current target asset allocation in the prior periods, would have been a compounded annual average of 9%-11%. Considering this information and the potential for lower future returns due to a generally lower interest rate environment, the Company selected an assumed weighted average long-term rate of return of 8.5% for all of the Pension Plans. The following table sets forth the change in benefit obligation for the Pension Plans and Post-Retirement Benefits at May 31:

	Pension Plans		Post-Retirement Benefits	
	2008	2007	2008	2007
Change in benefit obligation:				
Benefit obligation at beginning of year	$ 172.9	$ 162.0	$ 33.1	$ 31.1
Service cost	8.1	8.1	0.2	0.2
Interest cost	10.2	9.3	1.9	1.9
Plan participants contributions	0.1	0.4	0.3	0.2
Plan amendments	1.4			
Actuarial (gains) losses	(10.1)	5.9	(1.9)	2.1
Foreign currency exchange rate changes	2.1	(0.2)		
Benefits paid	(11.1)	(12.6)	(2.0)	(2.4)
Benefit obligation at end of year	**$ 173.6**	**$ 172.9**	**$ 31.6**	**$ 33.1**

The following table sets forth the change in plan assets for the Pension Plans and Post-Retirement Benefits at May 31:

	Pension Plans		Post-Retirement Benefits	
	2008	2007	2008	2007
Change in plan assets:				
Fair value of plan assets at beginning of year	$ 140.7	$ 124.7	$	$
Actual return on plan assets	(0.4)	19.1		
Employer contributions	13.4	10.5	1.7	2.2
Benefits paid, including expenses	(11.8)	(13.7)	(2.0)	(2.4)
Acquisitions / divestitures				
Plan participants contributions	0.1	0.3	0.3	0.2
Retiree Medicare drug subsidy				
Cumulative translation adjustments	2.0	(0.2)		
Fair value of plan assets at end of year	**$ 144.0**	**$ 140.7**	**$**	**$**

The following table sets forth the funded status of the Pension Plans and Post-Retirement Benefits and the related amounts recognized on the Company s Consolidated Balance Sheet at May 31:

Amounts recognized in the Consolidated Balance Sheet	Pension Plans		Post-Retirement Benefits	
	2008	2007	2008	2007
Current assets	$ 0.6	$ 0.4	$	$
Current liabilities		(3.3)	(3.3)	(2.9)
Non-current liabilities	(30.3)	(32.6)	(28.3)	(30.2)
Prepaid benefit cost				
Intangible assets				
Accumulated other comprehensive loss				
Net amounts recognized	**$ (29.7)**	**$ (35.5)**	**$ (31.2)**	**$ (30.2)**

The following amounts were recognized in Accumulated other comprehensive loss for the Pension Plans and Post- Retirement Benefits in the Company s Consolidated Balance Sheet at May 31:

	2008			2007		
	Pension Plans	Post-Retirement Benefits	Total	Pension Plans	Post-Retirement Benefits	Total
Net actuarial loss	$ (39.0)	$ (16.5)	$ (55.5)	$ (38.8)	$ (19.8)	$ (58.1)
Net prior service credit/(cost)	(0.4)	6.7	6.3	1.1	7.5	8.6

Net amount recognized in accumulated other comprehensive loss	**$**	**(39.4)**	**$**	**(9.8)**	**$**	**(49.2)**	**$**	**(37.2)**	**$**	**(12.3)**	**$**	**(49.5)**

The estimated net loss and prior service credit for the Pension Plans that will be amortized from Accumulated other comprehensive loss into net periodic benefit cost over the Company s fiscal year ending May 31, 2009 are $2.3 and $(0.1), respectively. The estimated net loss and prior service credit cost for the Post-Retirement Benefits that will be amortized from Accumulated other comprehensive loss into net periodic benefit cost over the fiscal year ending May 31, 2009 are $1.2 and $(0.9), respectively.

The accumulated benefit obligation for the Pension Plans was $165.8 and $164.3 at May 31, 2008 and 2007, respectively. The following table sets forth information with respect to the Pension Plans with accumulated benefit obligations in excess of plan assets for the fiscal years ended May 31:

	2008	2007
Projected benefit obligations	$ 165.9	$ 165.1
Accumulated benefit obligations	158.4	157.0
Fair value of plan assets	135.6	132.5

The following table sets forth the net periodic cost for the Pension Plans and Post-Retirement Benefits for the fiscal years ended May 31:

	Pension Plans			Post-Retirement Benefits		
	2008	2007	2006	2008	2007	2006
Components of net periodic benefit cost:						
Service cost	$ 8.2	$ 8.1	$ 8.0	$ 0.2	$ 0.2	$ 0.2
Interest cost	10.2	9.3	8.3	1.9	1.9	1.8
Expected return on assets	(11.9)	(9.6)	(8.8)			
Net amortization and deferrals	(0.1)	(0.2)	0.2	(0.9)	(0.8)	1.0
Recognized net actuarial loss	2.0	2.8	3.7	1.4	1.5	
Net periodic benefit cost	**$ 8.4**	**$ 10.4**	**$ 11.4**	**$ 2.6**	**$ 2.8**	**$ 3.0**

Plan Assets

The Company s investment policy with regard to the assets in the Pension Plans is to actively manage, within acceptable risk parameters, certain asset classes where the potential exists to outperform the broader market.

The following table sets forth the total weighted average asset allocations for the Pension Plans by asset category at May 31:

	2008	2007
Small cap equities	11.5%	13.1%
International equities	13.0	14.7
Index fund equities	40.9	42.3
Bonds and fixed interest products	30.6	29.0
Real estate	1.0	0.9
Other	3.0	
	100.0%	**100.0%**

The following table sets forth the weighted average target asset allocations for the Pension Plans included in the Company s investment policy:

	Pension Plan	U.K. Pension Plan	Grolier Canada Pension Plan
Equity	65.0%	68.0%	35.0%
Debt and cash equivalents	35.0	25.0	65.0
Real estate		7.0	
	100.0%	**100.0%**	**100.0%**

Contributions
In fiscal 2009, the Company expects to contribute $18.2 to the Pension Plan.

Estimated future benefit payments

The following table sets forth the expected future benefit payments under the Pension Plans and the Post-Retirement Benefits by fiscal year:

	Pension Benefits	Post-Retirement Benefit Payments	Post-Retirement Medicare Subsidy Receipts
2009	$ 10.7	$ 3.3	$ 0.5
2010	10.5	3.4	0.6
2011	11.0	3.5	0.6
2012	10.5	3.6	0.6
2013	10.7	3.7	0.6
2014-2018	55.5	18.5	3.3

Assumed health care cost trend rates at May 31:

	2008	2007
Health care cost trend rate assumed for the next fiscal year	7.0%	8.0%
Rate to which the cost trend is assumed to decline (the ultimate trend rate)	5.0%	5.0%
Year that the rate reaches the ultimate trend rate	2013	2013

Assumed health care cost trend rates could have a significant effect on the amounts reported for the post-retirement health care plan. A one percentage point change in assumed health care cost trend rates would have the following effects:

	2008	2007
Total service and interest cost	$ 0.2	$ 0.2
Post-retirement benefit obligation	2.6	2.6

Defined contribution plans

The Company also provides defined contribution plans for certain eligible employees. In the United States, the Company sponsors a 401(k) retirement plan and has contributed $6.9, $6.3 and $6.8 for fiscal 2008, 2007 and 2006, respectively. For its internationally based employees, the contributions under these plans totaled $5.0, $7.0 and $6.1 for fiscal 2008, 2007 and 2006, respectively.

13. EARNINGS PER SHARE

The following table sets forth the computation of basic and diluted earnings per share for the fiscal years ended May 31:

(Amounts in millions, except per share data)

	2008	2007	2006
Earnings from continuing operations	$ 110.6	$ 75.1	$ 72.4
Loss from discontinued operations, net of tax	(127.8)	(14.2)	(3.8)
Net (loss) income	(17.2)	60.9	68.6
Weighted average Shares of Class A Stock and Common Stock outstanding for basic earnings per share	38.7	42.5	41.6
Dilutive effect of Common Stock issued pursuant to stock-based benefit plans	0.5	0.5	0.6
Adjusted weighted average Shares of Class A Stock and Common Stock outstanding for diluted earnings per share	39.2	43.0	42.2

See Note 11 of Notes to Consolidated Financial Statements in Item 8, Consolidated Financial Statements and Supplemental Data .

14. ACCRUED EXPENSES

Accrued expenses consist of the following at May 31:

	2008	2007
Accrued payroll, payroll taxes and benefits	$ 64.6	$ 56.1
Accrued commissions	12.4	14.0
Accrued income and other non-payroll taxes	28.1	19.0
Accrued advertising and promotions	16.2	13.2
Other accrued expenses	52.3	35.7
Total Accrued expenses	$ 173.6	$ 138.0

15. OTHER INCOME

Other income, net for fiscal 2008 was $2.6 consisting of income of $1.4 related to a currency gain on settlement of a loan and $2.1 related to a note repurchase, partially offset by $0.9, representing expense associated with the early termination of one of the Company s subleases. In fiscal 2007, the Company recorded $3.0 in Other income, representing a gain from the sale of an equity investment in a French publishing company.

16. OTHER FINANCIAL DATA

Deferred promotion costs were $5.9 and $5.7 at May 31, 2008 and 2007, respectively. Promotion costs expensed were $15.8 for each of the fiscal years ended May 31, 2008 and 2007, and $14.4 for the fiscal year ended May 31, 2006.

Other advertising expenses were $147.3, $137.5 and $164.9 for the fiscal years ended May 31, 2008, 2007 and 2006, respectively.

Prepublication costs were $110.6 and $100.7 at May 31, 2008 and 2007, respectively. The Company amortized $42.3, $48.1 and $47.5 of prepublication costs for the fiscal years ended May 31, 2008, 2007 and 2006, respectively.

Other accrued expenses include a reserve for unredeemed credits issued in conjunction with the Company s school-based book club and book fair operations of $11.7 and $12.3 at May 31, 2008 and 2007, respectively.

The components of Accumulated other comprehensive loss at May 31, 2008 and 2007 include $0.4 and $2.4, respectively, of foreign currency translation and $34.2 ($21.2 net of tax) and $32.1 ($17.4 net of tax), respectively, of pension obligation in accordance with SFAS 158.

17. SUBSEQUENT EVENT

On July 23, 2008, the Company announced that the Board had declared a quarterly dividend of $0.075 per share to be paid on September 15, 2008 to shareholders of record of the Corporation s Common Stock and Class A Stock on August 4, 2008.

Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders of Scholastic Corporation

We have audited the accompanying consolidated balance sheets of Scholastic Corporation and subsidiaries as of May 31, 2008 and 2007, and the related consolidated statements of operations, changes in stockholders' equity and comprehensive income (loss) and cash flows for each of the three years in the period ended May 31, 2008. Our audits also included the financial statement schedule included in the Index at Item 15(a). These financial statements and schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and schedule based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Scholastic Corporation and subsidiaries at May 31, 2008 and 2007, and the consolidated results of their operations and their cash flows for each of the three years in the period ended May 31, 2008, in conformity with U.S. generally accepted accounting principles. Also, in our opinion, the related financial statements schedule, when considered in relation to the basic financial statements taken as a whole, presents fairly in all material respects, the information set forth therein.

As discussed in Note 1 to the financial statements, effective July 1, 2006, Scholastic Corporation adopted Statement of Financial Accounting Standards No. 123(R), "Share-Based Payments," using the modified-prospective transition method; effective May 31, 2007, the Statement of Financial Accounting Standards No. 158, "Employers' Accounting for Defined Benefit Pension and Other Postirement Plans," an amendment of FASB Statement No. 87, 88, 106 and 132(R); and effective June 1, 2007, the Financial Accounting Standards Board Interpretation No. 48, "Accounting for Uncertainty in Income Taxes," an interpretation of FASB Statement No. 109.

As described in Note 2 to the consolidated financial statements, Scholastic Corporation has restated their financial statements for the years ended May 31, 2007 and 2006 to correct their accounting for goodwill.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Scholastic Corporation's internal control over financial reporting as of May 31, 2008, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated July 30, 2008, except for the effects of the material weakness described in the sixth paragraph of that report, as to which the date is March 11, 2009, expressed an adverse opinion on the effectiveness of internal control over financial reporting because of the existence of a material weakness.

/s/ Ernst & Young LLP

New York, New York
July 30, 2008

Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders of Scholastic Corporation

We have audited Scholastic Corporation’s internal control over financial reporting as of May 31, 2008, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO criteria). Scholastic Corporation’s management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management’s Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the company’s internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company’s internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company’s internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company’s assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our report dated July 30, 2008, we expressed an unqualified opinion that the Company maintained, in all material respects, effective internal control over financial reporting as of May 31, 2008, based on the COSO criteria. Management has subsequently determined that a deficiency in controls relating to the goodwill impairment testing within the financial statement close process existed and has further concluded that such deficiency represented a material weakness as of May 31, 2008. As a result, management has revised its assessment, as presented in the accompanying Management's Report on Internal Control over Financial Reporting, to conclude that the Company's internal control over financial reporting was not effective as of May 31, 2008. Accordingly, our present opinion on the effectiveness of the Company's internal control over financial reporting as of May 31, 2008, as expressed herein, is different from that expressed in our previous report.

A material weakness is a deficiency, or combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the company’s annual or interim financial statements will not be prevented or detected on a timely basis. The following material weakness has been identified and included in management’s assessment: Management has identified a material weakness in controls related to the company’s goodwill impairment testing within its financial statement close process. This material weakness was considered in determining the nature, timing, and extent of audit tests applied in our audit of the 2008 financial statements, and this report does not affect our report dated July 30, 2008 on those financial statements.

In our opinion, because of the effect of the material weakness described above on the achievement of the objectives of the control criteria, Scholastic Corporation has not maintained effective internal control over financial reporting as of May 31, 2008, based on the COSO criteria.

/s/ Ernst & Young LLP

New York, New York
July 30, 2008, except for the effects of the material weakness described in the sixth paragraph above, as to which the date is March 11, 2009

Supplementary Financial Information

Summary of Quarterly Results of Operations

(Unaudited, amounts in millions except per share data)

	First Quarter	Second Quarter	Third Quarter Restated(1)	Fourth Quarter	Fiscal Year Ended May 31,
2008					
Revenues	$ 531.3	$ 690.5	$ 447.7	$ 536.1	$ 2,205.6
Cost of goods sold	298.8	292.3	218.8	243.8	1,053.7
Earnings from continuing operations	4.7	80.5	(3.5)	28.9	110.6
Loss from discontinued operations	(7.5)	(4.9)	(84.4)	(31.0)	(127.8)
Net income (loss)	(2.8)	75.6	(87.9)	(2.1)	(17.2)
Earnings (loss) per share of Class A and Common Stock:					
Basic:					
Earnings from continuing operations	$ 0.12	$ 2.09	$ (0.09)	$ 0.76	$ 2.86
Loss from discontinued operations	$ (0.19)	$ (0.13)	$ (2.20)	$ (0.81)	$ (3.30)
Net income (loss)	$ (0.07)	$ 1.96	$ (2.29)	$ (0.05)	$ (0.44)
Diluted:					
Earnings from continuing operations	$ 0.12	$ 2.06	$ (0.09)	$ 0.75	$ 2.82
Loss from discontinued operations	$ (0.19)	$ (0.13)	$ (2.20)	$ (0.80)	$ (3.26)
Net income (loss)	$ (0.07)	$ 1.93	$ (2.29)	$ (0.05)	$ (0.44)
2007					
Revenues	$ 281.2	$ 669.2	$ 424.7	$ 546.8	$ 1,921.9
Cost of goods sold	147.7	295.8	212.2	237.7	893.4
Earnings from continuing operations	(40.1)	74.8	(5.1)	45.5	75.1
Loss from discontinued operations, net of tax	(6.8)	0.3	(2.6)	(5.1)	(14.2)
Net income (loss)	(46.9)	75.1	(7.7)	40.4	60.9
Earnings (loss) per share of Class A and Common Stock:					
Basic:					
Earnings from continuing operations	$ (0.95)	$ 1.77	$ (0.12)	$ 1.06	$ 1.77
Loss from discontinued operations	$ (0.17)	$ 0.01	$ (0.06)	$ (0.12)	$ (0.34)
Net income (loss)	$ (1.12)	$ 1.78	$ (0.18)	$ 0.94	$ 1.43
Diluted:					
Earnings from continuing operations	$ (0.95)	$ 1.75	$ (0.12)	$ 1.05	$ 1.75
Loss from discontinued operations	$ (0.17)	$ 0.00	$ (0.06)	$ (0.12)	$ (0.33)
Net income (loss)	$ (1.12)	$ 1.75	$ (0.18)	$ 0.93	$ 1.42

(1) See Note 2 of Notes to Consolidated Financial Statements in Item 8, Consolidated Financial Statements and Supplemental Data .

Part II

Item 9A. Controls and Procedures

Disclosure Controls and Procedures

Disclosure controls and procedures are those controls and procedures designed to ensure information required to be disclosed by the Corporation in its reports filed or submitted under the Securities Exchange Act of 1934 (the “Exchange Act”) is recorded, processed, summarized and reported within the time periods specified in the rules and forms of the SEC and accumulated and communicated to members of the Corporation’s management, including the Chief Executive Officer and the Chief Financial Officer, to allow timely decisions regarding disclosure. The Chief Executive Officer and the Chief Financial Officer of the Corporation, after conducting an evaluation, together with other members of the Corporation’s management, of the effectiveness of the design and operation of the Corporation’s disclosure controls and procedures as of May 31, 2008, have now concluded that the Corporation’s disclosure controls and procedures were ineffective as of May 31, 2008 because of the material weakness in internal control over financial reporting discussed below. The foregoing conclusion is based solely on the specific reported material weakness resulting in the restatement of its historical financial statements referred to below (the “Restatement”), which related to an incorrect determination of the business unit level at which to test for goodwill impairment, and did not relate to any failure to provide adequate information in order to make disclosure decisions based on such information or to the adequacy or correctness of any other information, including the financial information, contained in the original Form 10-K as filed with the SEC. During the financial close process following May 31, 2008, the underlying circumstances of the material weakness were fully communicated to and considered by the Corporation’s Disclosure Committee in the course of the preparation of the original Form 10-K and resulted in correct and proper financial statements (which included the Restatement) being included in such Form 10-K as originally filed.

As a result of identifying the material weakness discussed below, the Corporation implemented alternate processes, including, in addition to testing for goodwill impairment at the appropriate level for the business unit involved in the Restatement, the testing of goodwill at other business units at levels below their defined reporting units, which provided the Chief Executive Officer and the Chief Financial Officer with reasonable assurances that the Corporation’s disclosure controls and procedures, in light of these additional processes instituted after May 31, 2008 during the financial statement close process, were effective subsequent to May 31, 2008. Pending full remediation of the material weakness and testing of such remediation, the Corporation intends to continue to perform the additional processes noted above to ensure that the material weakness does not impair the Corporation’s ability to produce correct and timely financial statements. Accordingly, it remains the opinion of the Chief Executive Officer and the Chief Financial Officer that the Corporations disclosure controls and procedures were effective at the end of all quarterly periods following May 31, 2008, notwithstanding the material weakness in internal control over financial reporting discussed below.

Management’s Report on Internal Controls over Financial Reporting

The management of the Corporation is responsible for establishing and maintaining adequate internal control over financial reporting for the Corporation. A company’s internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to further periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

As described in Note 2 (Restatement) of Notes to Consolidated Financial Statements in Item 8, “Consolidated Financial Statements and Supplementary Data,” which is included herein, the Corporation has restated its historical financial statements as a result of a reassessment of its accounting regarding goodwill impairment for its Direct to Home continuity businesses (the “DTH business”), which are now reflected as discontinued operations. Upon the initial decision to dispose of the DTH business and treat such DTH business as a discontinued operation, the Corporation continued its impairment testing of the domestic portion of its DTH business at the reporting unit level of its Children’s Book Publishing and Distribution segment. Subsequently, at the time the Corporation was preparing its financial statements for the fiscal year ended May 31, 2008, the Corporation reassessed the reporting unit level at which such impairment testing should have been conducted and determined that such testing should more properly have been conducted at the lower reporting unit level of the domestic portion of the DTH business itself, which resulted in the Restatement, as described in Note 2

(Restatement) of Notes to Consolidated Financial Statements in Item 8, "Consolidated Financial Statements and Supplementary Data," which is included herein.

As of the time of the filing of the original Form 10-K, July 30, 2008, the Corporation's Chief Executive Officer and Chief Financial Officer, after conducting an evaluation, together with other members of Scholastic management, of the effectiveness of the Corporation's internal control over financial reporting based on the framework in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission, concluded that the Corporation's internal control over financial reporting was effective as of May 31, 2008 and that the Restatement indicated a significant deficiency in the Corporation's internal control over financial reporting with respect to its goodwill impairment testing within the Corporation's financial statement close process. This conclusion rested in part on the fact that the Restatement resulted from a further assessment of the Corporation's prior judgment as to the proper reporting unit level for impairment testing of the domestic portion of the DTH business, a judgment the Corporation reasonably believed to be correct at the time it was made.

This conclusion about the Corporation's internal controls was reconsidered subsequently by the Chief Executive Officer and Chief Financial Officer and, in view of the size of the goodwill impairment reflected in the Restatement, it was concluded that the significant deficiency more properly rose to the level of a material weakness in the Corporation's internal control over financial reporting and therefore that the Corporation's internal controls were not effective as of May 31, 2008. Ernst & Young LLP, an independent registered public accounting firm, has issued an attestation report on the Corporation's internal control over financial reporting as of May 31, 2008, which is included in this Amendment.

Other Matters

Having identified the failure to test impairment of goodwill at the correct reporting unit level in connection with the domestic portion of the DTH business as the result of a material weakness, the Corporation is now in the process of remediation, including an extensive review of its goodwill impairment testing procedures and building and documenting additional control procedures for its goodwill impairment testing process. The Corporation expects that its remedial measures will be fully implemented and tested prior to the conclusion of fiscal year 2009.

As previously reported, there was no change in the Corporation's internal control over financial reporting that occurred during the quarter ended May 31, 2008 that materially affected, or is reasonably likely to materially affect, the Corporation's internal control over financial reporting.

Part IV

Item 15. Exhibits, Financial Statement Schedules

Exhibits:

23	Consent of Ernst & Young LLP.
31.1	Certification of the Chief Executive Officer of the Corporation filed pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of the Chief Financial Officer of the Corporation filed pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32	Certifications of the Chief Executive Officer and the Chief Financial Officer of the Corporation pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this Form 10-K/A report to be signed on its behalf by the undersigned, thereunto duly authorized.

Date: March 13, 2009

SCHOLASTIC CORPORATION

By: /s/ Maureen OConnell

Name: Maureen OConnell

Title: Executive Vice President, Chief Administrative Officer and Chief Financial Officer

EXHIBIT INDEX

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