

SCHOLASTIC CORPORATION
CONSOLIDATED STATEMENTS OF OPERATIONS
(UNAUDITED)
(Amounts in millions except per share data)

	THREE MONTHS ENDED	
	8/31/2008 (1)	8/31/2007 (1)
Revenues (2)	\$285.0	\$531.3
Operating costs and expenses:		
Cost of goods sold	149.0	298.8
Selling, general and administrative expenses	182.9	199.4
Bad debt expense	1.8	1.9
Depreciation and amortization	16.2	15.8
Total operating costs and expenses	349.9	515.9
Operating (loss) income	(64.9)	15.4
Interest expense, net	5.8	8.6
(Loss) earnings from continuing operations before income taxes	(70.7)	6.8
Provision (benefit) for income taxes	(26.0)	3.5
(Loss) earnings from continuing operations	(44.7)	3.3
Loss from discontinued operations, net of tax (3)	(4.4)	(6.1)
Net loss	(\$49.1)	(\$2.8)
Basic and diluted (loss) earnings per Share of Class A and Common Stock:		
(Loss) earnings from continuing operations	(1.18)	0.08
Loss from discontinued operations, net of tax	(0.12)	(0.15)
Net loss	(1.30)	(0.07)
Basic weighted average shares outstanding	37.9	39.7
Diluted weighted average shares outstanding	38.1	40.3

(1) As announced, the Company sold its U.S. direct-to-home continuities business during August 2008 and intends to sell its Canadian and U.K. direct-to-home continuities businesses and its Maumelle facility, and has shut down its school-based continuities business effective May 31, 2008. As a result, the results of operations associated with these businesses are presented as discontinued operations for accounting purposes in the fiscal 2009 and prior year periods.

(2) Revenue related to discontinued operations is not reported in the Company's revenue from continuing operations. Revenue related to the discontinued direct-to-home continuities business was \$34.6 and \$46.5 for the three months ended August 31, 2008 and August 31, 2007, respectively. Revenue related to the discontinued school-based continuities business was \$0.0 and \$9.1 for the three months ended August 31, 2008 and August 31, 2007, respectively.

(3) In the three months ended August 31, 2008, the Company recorded a non-cash write down of certain assets, net of tax, of \$5.0 (\$0.13 per diluted share), related to the valuation of the Company's U.K. direct-to-home continuities business and a gain on sale, net of tax, of \$5.6 (\$0.15 per diluted share). Operating losses associated with the direct-to-home continuities business, net of tax, were \$5.0 and \$4.6 (\$0.13 and \$0.11 per diluted share) in the three months ended August 31, 2008 and August 31, 2007, respectively. Operating losses associated with the school-based continuities business, net of tax, were \$0.0 and \$1.5 (\$0.00 and \$0.04 per diluted share) in the three months ended August 31, 2008 and August 31, 2007, respectively.

SCHOLASTIC CORPORATION
RESULTS OF CONTINUING OPERATIONS - SEGMENTS
(UNAUDITED)
(Amounts in millions)

	THREE MONTHS ENDED			
	8/31/08 (1)	8/31/07 (1)	Change	
Children's Book Publishing & Distribution				
Revenue				
Book Clubs	\$8.6	\$9.9	(\$1.3)	(13%)
Trade	40.4	276.9	(236.5)	(85%)
Book Fairs	12.0	10.0	2.0	20%
Total revenue	<u>61.0</u>	<u>296.8</u>	<u>(235.8)</u>	<u>(79%)</u>
Operating (loss) income	(55.9)	12.6	(68.5)	*
Operating margin	*	4.2%		
Educational Publishing				
Revenue	116.4	127.8	(11.4)	(9%)
Operating income	<u>21.0</u>	<u>30.4</u>	<u>(9.4)</u>	<u>(31%)</u>
Operating margin	18.0%	23.8%		
International				
Revenue	88.1	90.3	(2.2)	(2%)
Operating loss	<u>(4.2)</u>	<u>(1.6)</u>	<u>(2.6)</u>	*
Operating margin	*	*		
Media, Licensing and Advertising				
Revenue	19.5	16.4	3.1	19%
Operating loss	<u>(4.6)</u>	<u>(5.4)</u>	<u>0.8</u>	<u>15%</u>
Operating margin	*	*		
Overhead expense	<u>21.2</u>	<u>20.6</u>	<u>(0.6)</u>	<u>(3%)</u>
Operating (loss) income from continuing operations	<u>(\$64.9)</u>	<u>\$15.4</u>	<u>(\$80.3)</u>	*

(1) Results for the three month periods ended August 31, 2008 and August 31, 2007 reflect continuing operations and exclude discontinued operations. The Company's domestic direct-to-home and school-based continuities businesses were formerly included in the Children's Book Publishing and Distribution segment and the international direct-to-home business was formerly included in the International segment. The Company's Maumelle facility, which is included in discontinued operations, was formerly included in Overhead. All corresponding prior year periods presented have been reclassified to reflect this presentation.

* Percent not meaningful.

SCHOLASTIC CORPORATION
SUPPLEMENTAL INFORMATION
(UNAUDITED)
(Amounts in millions)

SELECTED BALANCE SHEET ITEMS

	8/31/2008	8/31/2007
Continuing Operations		
Cash and cash equivalents	\$31.7	\$39.2
Accounts receivable, net	196.5	431.4
Inventories, net	482.6	480.7
Accounts payable	135.3	162.8
Accrued royalties	53.4	145.5
Lines of credit, short-term debt and current portion of long-term debt	105.8	73.1
Long-term debt, excluding current portion	324.4	516.4
Total debt	430.2	589.5
Total capital lease obligations	60.8	64.7
Net debt (1)	398.5	550.3
Discontinued Operations		
Total assets of discontinued operations (2)	29.6	224.7
Total liabilities of discontinued operations	16.1	26.7
Total stockholders' equity	801.3	864.5

SELECTED CASH FLOW ITEMS

	THREE MONTHS ENDED	
	8/31/2008	8/31/2007
Net cash used in operating activities	(\$140.6)	(\$108.2)
Less: Additions to property, plant and equipment	9.9	9.9
Pre-publication and production costs	11.9	11.6
Free cash use (3) (4)	(\$162.4)	(\$129.7)

- (1) Net debt is defined by the Company as lines of credit and short-term debt plus long-term-debt, net of cash and cash equivalents. The Company utilizes this non-GAAP financial measure, and believes it is useful to investors, as an indicator of the Company's effective leverage and financing needs.
- (2) The decline in Total assets of discontinued operations between the two period-end dates shown reflects the write-down of certain assets associated with the discontinued operations held for sale totaling \$162.5.
- (3) Free cash flow or use is defined by the Company as net cash provided by or used in operating activities (which includes royalty advances), reduced by spending on property, plant and equipment and pre-publication and production costs. The Company believes that this measure, which is a non-GAAP financial measure, is useful to investors as an indicator of cash flow available for debt repayment and other investing activities, such as acquisitions. The Company utilizes free cash flow or use as a further indicator of operating performance and for planning investing activities.
- (4) Free cash use includes use from discontinued operations of \$3.5 and \$0.2 for the three months ended August 31, 2008 and August 31, 2007, respectively.