



SCHOLASTIC



FISCAL 2011 SECOND QUARTER EARNINGS PRESENTATION

December 16, 2010



## **Forward-Looking Statements**

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This presentation contains certain forward-looking statements, which are subject to various risks and uncertainties, including the conditions of the children's book and educational materials markets and acceptance of the Company's products in those markets and other risks and factors identified from time to time in the Company's filings with the Securities and Exchange Commission. Actual results could differ materially from those currently anticipated.



## **Regulation G**

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Today's comments include references to certain non-GAAP financial measures as defined in Regulation G. The reconciliation of these non-GAAP financial measures with the relevant GAAP financial information and other information required by Regulation G is provided in the Company's earning release, which is posted on the Company's investor relations website at [investor.scholastic.com](http://investor.scholastic.com).



## **Dick Robinson**

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Chief Executive Officer, President  
and Chairman



## Children's Books

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- Solid growth in School Book Fairs, driven by higher revenue per fair
- Solid growth in Trade, reflecting best-selling series including The Hunger Games, The 39 Clues and Harry Potter
- Sustained sales and teacher participation in School Book Clubs, following successful implementation of New COOL and increase in promotion spending
- Profits down versus prior year, reflecting higher promotion in Clubs and planned digital spending



## **Digital Initiatives**

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- Leveraging continued strength in traditional, print children's book business to grow digital opportunities – ecommerce and ebooks
- Began end-to-end testing of ebook delivery system
- Successful initial tests of ereader software application with children
- Enthusiastic response to ebook platform from publishers and authors
- Targeting spring beta, with full launch for fall 2011



## **Educational Publishing**

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- Sales and profits lower than fiscal 2010, when federal stimulus funds drove record results
  - Revenue up strongly from fiscal 2009 (pre-stimulus)
- Strong growth in services to expanded customer base partially offset lower product sales
- Sustained higher service revenues and new products should benefit second half



## **Maureen O'Connell**

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Executive Vice President,  
Chief Administrative Officer and  
Chief Financial Officer



## Income Statement

<b>\$M (except per share)</b>	<b>Q2 2011</b>	<b>Q2 2010</b>
Revenue	\$675.7	\$660.1
Cost of goods sold	296.2	273.6
Selling, general and administrative expenses <sup>1</sup>	233.3	221.6
Bad debt expense	3.0	4.4
Depreciation and amortization	14.5	14.8
Impairment charges <sup>2</sup>	-	40.1
Total operating costs and expenses	547.0	554.5
Operating income from continuing operations	\$128.7	\$105.6
Other income (loss)	(0.4)	-
Interest expense, net	4.0	4.3
Provision for income taxes	47.4	44.5
Earnings from continuing operations	\$76.9	\$56.8
Loss from discontinued operations, net of tax	(2.0)	(1.3)
Net income	\$74.9	\$55.5
Earnings per diluted share from continuing operations	2.19	1.54
Loss per share from discontinued operations	(0.05)	(0.03)
Net earnings per diluted share	\$2.14	\$1.51

Note: Q2 2010 included one-time charges of (1) \$1.9 in severance expense associated with restructuring in the UK, recorded in SG&A and (2) \$40.1 of asset impairments, of which \$36.3 was associated with print publishing for libraries and \$3.8 was related to asset impairments in the UK. Adjusted operating income for the period was \$147.6, and adjusted EPS from continuing operations was \$2.29. There were no one-time charges in Q2 2011.



## Free Cash Flow and Balance Sheet

<b>\$M</b>	<b>Nov 30, 2010</b>	<b>Nov 30, 2009</b>
Free cash flow (3 month period) <sup>1</sup>	\$132.8	\$141.3
Accounts receivable, net	\$287.7	\$284.6
Inventories, net	\$371.6	\$374.7
Accounts payable	\$164.5	\$134.4
Accrued royalties	\$48.8	\$47.9
Total debt	\$231.2	\$279.6
Cash and cash equivalents	54.4	178.3
Net debt <sup>2</sup>	\$176.8	\$101.3

<sup>1</sup>Free cash flow 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.

<sup>2</sup>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.



## Outlook

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- Revising FY11 outlook:

**Earnings per diluted share<sup>1</sup>** **\$1.80 to \$2.05**

**Revenue** **\$1.9 to \$1.95 billion**

- Maintaining other elements of FY11 outlook:

**Free cash flow** **\$90 to \$100 million**

**Capital expenditures** **\$50 to \$60 million**

**Prepublication and  
Production Spending** **\$65 to \$75 million**

<sup>1</sup>Earnings per diluted share from continuing operations, before the impact of one-time items.



## Questions & Answers

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### Participants

- Richard Robinson
- Maureen O'Connell
- Ellie Berger, Scholastic Trade Publishing
- Deborah Forte, Scholastic Media
- Margery Mayer, Scholastic Education
- Judy Newman, Scholastic Book Clubs
- Hugh Roome, Scholastic Consumer and Professional Publishing