



**SCHOLASTIC**

**Fiscal 2007 First Quarter Earnings Presentation  
September 21, 2006**



## **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.



## **Dick Robinson**

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Chairman, Chief Executive Officer  
and President



## Scholastic Education

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- Strong educational tech sales, especially READ 180<sup>®</sup>
  - Scholastic Reading Inventory<sup>™</sup>
  - ReadAbout<sup>®</sup>
- Improved results in professional books, Library Publishing
- Profits and margins up



## Children's Books

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- Strong summer Trade releases
- New products, channels driving growth in Continuities
  - Higher bad debt related to customer acquisition
- Implementing streamlined School Book Club promotions
- Process standardization in School Book Fairs

## **Fiscal 2007 Outlook**

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- Solid Q1 results in Education, Trade
- Still early in Clubs and Fairs
- Focus on profitable growth in Continuities
- Early, on plan in International
- On track for overhead reduction plan



## **Mary Winston**

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Executive Vice President and  
Chief Financial Officer



## Income Statement

\$M (except per share)	1Q07	1Q06	Δ
Revenue	\$334.9	\$498.4	(33%)
Cost of goods sold	171.8	293.0	41%
Selling, general & administrative	196.6	202.4	3%
Bad debt expense	15.7	12.6	(25%)
Depreciation & amortization	16.9	15.6	(8%)
Operating loss	(66.1)	(25.2)	*
Interest expense, net	(7.4)	(8.5)	13%
Benefit for income taxes	26.6	12.5	*
Net loss	(\$46.9)	(\$21.2)	*
Loss per diluted share	(\$1.12)	(\$0.52)	*

\*Not meaningful





## Segment Operating Results

\$M	1Q07	1Q06	Δ
Children's Book Publishing & Distribution			
Revenue	\$112.6	\$275.3	(59%)
<i>Trade</i>	45.4	213.3	(79%)
<i>Continuities</i>	44.9	38.1	18%
<i>School book clubs</i>	10.7	13.2	(19%)
<i>School book fairs</i>	11.6	10.7	8%
Operating income (loss)	(67.3)	(19.7)	*
Operating margin	*	*	

\*Not meaningful



## Segment Operating Results (continued)

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\$M	1Q07	1Q06	Δ
Educational Publishing			
Revenue	\$127.4	\$128.3	(1%)
Operating income	32.7	27.5	19%
<i>Operating margin</i>	<i>26%</i>	<i>21%</i>	



## Segment Operating Results (continued)

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\$M	1Q07	1Q06	Δ
International			
Revenue	\$79.2	\$76.7	3%
Operating income (loss)	(5.5)	(5.5)	0%
<i>Operating margin</i>	*	*	

\*Not meaningful



## Segment Operating Results (continued)

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\$M	1Q07	1Q06	Δ
Media, Licensing & Advertising			
Revenue	\$15.7	\$18.1	(13%)
Operating income (loss)	(6.1)	(5.7)	(7%)
<i>Operating margin</i>	*	*	
Corporate Overhead	(19.9)	(21.8)	9%

\*Not meaningful



## Balance Sheet

\$M	Aug. 31, 2006	Aug 31, 2005
Cash & cash equivalents	\$19.7	\$18.4
Accounts receivable, net	249.8	411.7
Inventory	548.0	509.2
Accounts payable	164.3	179.3
Accrued royalties	47.7	127.2
Lines of credit, short-term debt and current portion of long-term debt	301.5	33.8
Long-term debt, excluding current portion	174.3	546.0
Capital lease obligations	67.7	78.0
Total stockholders' equity	999.9	926.0
Net debt <sup>1</sup>	456.1	561.4
Net debt <sup>1</sup> / capitalization	31%	38%

<sup>1</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.

## Free Cash Flow

\$M	1Q07	1Q06
Net cash provided by (used in) operations	(\$138.1)	(\$138.8)
Additions to property, plant & equipment	6.2	15.4
Prepublication & production costs	10.5	16.9
Royalty advances	6.1	7.2
Free cash flow (use) <sup>1</sup>	(\$160.9)	(\$178.3)

<sup>1</sup>Free cash flow (use) is defined by the Company as net cash provided by operating activities, less spending on PP&E, prepublication and production costs, and royalty advances.



## **Fiscal 2007 Outlook**

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- Strength in non-Harry Potter Trade, Fairs, Education, International
- Solid plans for Clubs and Continuities
- Overhead cost reductions underway, on plan
- On plan for fiscal 2007 goals



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