

SCHOLASTIC CORP
Form 10-Q
March 27, 2014

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

FORM 10-Q

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

For the quarterly period ended February 28, 2014

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

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 S No ☐

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (229.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes S No ☐

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 the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer S Accelerated filer ☐ Non-accelerated filer ☐ Smaller reporting company ☐

Indicate by check mark whether the Registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes ☐ No S

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

Title	Number of shares outstanding
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of each class

as of February 28, 2014

Common Stock, \$.01 par value

30,540,941

Class A Stock, \$.01 par value

1,656,200

SCHOLASTIC CORPORATION

FORM 10-Q FOR THE QUARTERLY PERIOD ENDED FEBRUARY 28, 2014

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PART I - FINANCIAL INFORMATION

Item 1. Financial Statements

SCHOLASTIC CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS - UNAUDITED

(Dollar amounts in millions, except per share data)

	Three months ended February 28,		Nine months ended February 28,	
	2014	2013	2014	2013
Revenues	\$ 373.5	\$ 378.6	\$ 1,273.0	\$ 1,285.5
Operating costs and expenses:				
Cost of goods sold (exclusive of depreciation and amortization)	190.7	190.0	593.4	602.8
Selling, general and administrative expenses (exclusive of depreciation and amortization)	202.9	199.5	605.7	605.8
Depreciation and amortization	14.2	16.5	46.0	49.3
Asset impairments	—	—	13.4	—
Total operating costs and expenses	407.8	406.0	1,258.5	1,257.9
Operating income (loss)	(34.3)	) (27.4)	) 14.5	27.6
Interest expense, net	(1.9)	) (4.1)	) (5.9)	) (11.5)
Loss on investment	(4.7)	) —	(4.7)) —
Earnings (loss) from continuing operations before income taxes	(40.9)	) (31.5)	) 3.9	16.1
Provision (benefit) for income taxes	(28.8)	) (11.6)	) (12.2)	) 5.1
Earnings (loss) from continuing operations	(12.1)	) (19.9)	) 16.1	11.0
Earnings (loss) from discontinued operations, net of tax	0.0	(0.2)	) 0.2	(1.4)
Net income (loss)	\$ (12.1)	) \$ (20.1)	) \$ 16.3	\$ 9.6
Basic and diluted earnings (loss) per Share of Class A and Common Stock				
Basic:				
Earnings (loss) from continuing operations	\$ (0.38)	) \$ (0.62)	) \$ 0.50	\$ 0.34
Earnings (loss) from discontinued operations, net of tax	\$ 0.00	\$ (0.01)	) \$ 0.01	\$ (0.04)
Net income (loss)	\$ (0.38)	) \$ (0.63)	) \$ 0.51	\$ 0.30
Diluted:				
Earnings (loss) from continuing operations	\$ (0.38)	) \$ (0.62)	) \$ 0.50	\$ 0.34
Earnings (loss) from discontinued operations, net of tax	\$ 0.00	\$ (0.01)	) \$ 0.00	\$ (0.05)
Net income (loss)	\$ (0.38)	) \$ (0.63)	) \$ 0.50	\$ 0.29
Dividends declared per class A and common share	\$ 0.150	\$ 0.125	\$ 0.425	\$ 0.375

See accompanying notes

SCHOLASTIC CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS) - UNAUDITED

(Dollar amounts in millions)

	Three months ended February 28,		Nine months ended February 28,	
	2014	2013	2014	2013
Net income (loss)	\$(12.1	) \$(20.1	) \$16.3	\$9.6
Other comprehensive income (loss), net:				
Foreign currency translation adjustments	(3.2	) (5.2	) (5.8	) 1.9
Pension and post-retirement adjustments:				
Amortization of prior service cost (credit)	(0.1	) (0.1	) (0.2	) (0.3
Amortization of unrecognized gain (loss) included				
in	1.8	0.8	3.2	3.9
net periodic cost				
Total other comprehensive income (loss)	\$(1.5	) \$(4.5	) \$(2.8	) \$5.5
Comprehensive income (loss)	\$(13.6	) \$(24.6	) \$13.5	\$15.1

See accompanying notes

SCHOLASTIC CORPORATION

CONDENSED CONSOLIDATED BALANCE SHEETS - UNAUDITED

(Dollar amounts in millions, except per share data)

	February 28, 2014	May 31, 2013	February 28, 2013
ASSETS			
Current Assets:			
Cash and cash equivalents	\$22.0	\$87.4	\$196.7
Accounts receivable, net	206.0	214.9	196.4
Inventories, net	335.6	278.1	352.5
Deferred income taxes	76.6	79.2	71.4
Prepaid expenses and other current assets	70.9	61.2	76.6
Current assets of discontinued operations	0.4	0.4	8.5
Total current assets	711.5	721.2	902.1
Property, plant and equipment, net	481.9	311.6	322.3
Prepublication costs	147.0	147.3	139.6
Royalty advances, net	39.7	37.0	36.8
Production costs	5.2	1.7	2.0
Goodwill	144.5	157.9	158.0
Other intangibles	12.8	14.6	15.0
Noncurrent deferred income taxes	5.4	14.9	42.5
Other assets and deferred charges	39.9	34.8	35.2
Total assets	\$1,587.9	\$1,441.0	\$1,653.5
LIABILITIES AND STOCKHOLDERS' EQUITY			
Current Liabilities:			
Lines of credit, short-term debt and current portion of long-term debt	\$4.7	\$2.0	\$1.8
Capital lease obligations	0.0	0.2	0.4
Accounts payable	159.8	156.2	157.9
Accrued royalties	53.9	34.4	66.3
Deferred revenue	83.0	48.1	81.4
Other accrued expenses	167.5	179.5	175.3
Current liabilities of discontinued operations	1.1	1.3	1.7
Total current liabilities	470.0	421.7	484.8
Noncurrent Liabilities:			
Long-term debt	175.0	—	153.0
Capital lease obligations	0.0	57.5	57.2
Other noncurrent liabilities	66.9	97.4	112.7
Total noncurrent liabilities	241.9	154.9	322.9
Commitments and Contingencies	—	—	—
Stockholders' Equity:			
Preferred Stock, \$1.00 par value	—	—	—
Class A Stock, \$.01 par value	0.0	0.0	0.0
Common Stock, \$.01 par value	0.4	0.4	0.4
Additional paid-in capital	579.6	582.9	582.0
Accumulated other comprehensive income (loss)	(68.2)	(65.4)	(68.7)
Retained earnings	741.9	738.9	721.4
Treasury stock at cost	(377.7)	(392.4)	(389.3)
Total stockholders' equity	876.0	864.4	845.8

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Total liabilities and stockholders' equity	\$1,587.9	\$1,441.0	\$1,653.5
See accompanying notes			

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

	Nine months ended	
	February 28, 2014	February 28, 2013
Cash flows - operating activities:		
Net income (loss)	\$ 16.3	\$ 9.6
Earnings (loss) from discontinued operations, net of tax	0.2	