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

FORM 10-K

[X] ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

FOR THE FISCAL YEAR ENDED MAY 31, 1996

OR

[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

COMMISSION FILE NO. 0-19860

SCHOLASTIC CORPORATION

(EXACT NAME OF REGISTRANT AS SPECIFIED IN ITS CHARTER)

DELAWARE	13-3385513
(STATE OR OTHER JURISDICTION OF INCORPORATION OR ORGANIZATION)	(IRS EMPLOYER IDENTIFICATION NO.)
555 BROADWAY, NEW YORK, NEW YORK	10012
(ADDRESS OF PRINCIPAL EXECUTIVE OFFICES)	(ZIP CODE)

REGISTRANT'S TELEPHONE NUMBER, INCLUDING AREA CODE (212) 343-6100

SECURITIES REGISTERED PURSUANT TO SECTION 12(b) OF THE ACT:

NONE

SECURITIES REGISTERED PURSUANT TO SECTION 12(g) OF THE ACT:

TITLE OF CLASS	NAME OF EXCHANGE ON WHICH REGISTERED
Common Stock, $.01 Par Value	The NASDAQ Stock Market'sm' -- NASDAQ National Market'r'

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

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 Registrant's 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. [ ]

The aggregate market value of the Registrant's Voting Stock held by non-affiliates was approximately $748,797,732 based on the average bid and asked prices of the Common Stock on the National Association of Securities Dealers, Inc., Automated Quotations -- National Market System on July 31, 1996.

On June 28, 1996, 828,100 shares of Class A Stock, par value $.01, and 15,048,540 shares of Common Stock, par value $.01, were outstanding exclusive of treasury shares. The Class A Stock is convertible at the option of the holders into shares of Common Stock at any time on a share-for-share basis.

DOCUMENTS INCORPORATED BY REFERENCE

Part III incorporates certain information by reference from the Registrant's definitive proxy statement for the Annual Meeting of Stockholders to be held September 17, 1996.

PART I

ITEM I. BUSINESS

Scholastic Corporation, together with its subsidiaries and affiliates (collectively hereinafter referred to as 'Scholastic' or the 'Company'), is among the leading publishers and distributors of children's books, classroom and professional magazines, and other educational materials, with operations in the United States, Canada, the United Kingdom, Australia, New Zealand, France and Mexico. Scholastic distributes most of its products directly to children and teachers in elementary and secondary schools. During its seventy-six years of serving schools, Scholastic has developed strong name recognition associated with quality and dedication to learning and has achieved a leading market position in the school-based distribution of children's books and magazines.

The Company's domestic book publishing business consists primarily of the publication and distribution of children's books in paperback editions through school book clubs, school book fairs, trade distribution in retail stores and classroom and library sales. Based on its market research, competitive intelligence and information obtained through the conduct of its business, the Company believes that it operates the largest school book club program and the largest school book fair business in the United States. In fiscal 1996, Scholastic sold in excess of 200 million children's books in the United States. The Company's book publishing operations also include the publication of supplementary texts for classroom use as well as professional books and other materials sold to classroom teachers. Additionally, the Company entered the market for core-curriculum materials and has been investing heavily in this area as a source of future growth in sales and profits.

Scholastic's domestic magazine publishing business consists primarily of the publication of classroom magazines distributed to children in school, professional magazines directed to teachers and other education professionals and consumer magazines. In fiscal 1996, the United States circulation of the Company's classroom magazines was 7.1 million. The Company's other domestic operations include the distribution of educational computer software, the production and distribution of child and family-oriented video and television programming, and the merchandising and licensing of book properties.

Most of the Company's domestic revenues are generated by targeted direct mail programs to schools and by telephone sales representatives. Additionally, the Company has a school sales force of full-time and part-time representatives calling on schools to sell its supplementary texts, educational software and library book programs, and its newly developed core-curriculum materials. For trade distribution, the Company has a retail sales force calling on bookstores and other retail outlets that include the sale of children's books.

The Company's international business consists of six operating subsidiaries, four of which publish and distribute children's books, magazines, supplementary text products, and educational software and two of which serve primarily as distributors of children's books published by Scholastic as well as outside publishers. For the year ended May 31, 1996, approximately 80% of international revenues were derived from the sale of children's books.

The following table sets forth revenues by product line for the five fiscal years ended May 31:

	1996	1995	1994	1993	1992
			(AMOUNTS IN THOUSANDS)		
Domestic					
Book publishing	$657,511	$516,827	$428,283	$361,282	$305,896
Magazine publishing	81,595	84,027	72,964	66,661	64,037
Video and New Media	39,795	19,491	17,998	17,550	15,762
International	149,698	129,546	112,345	106,784	103,650
Total	$928,599	$749,891	$631,590	$552,277	$489,345

Scholastic's revenues have grown at an average annual compounded rate (the 'compounded growth rate') of approximately 17% from fiscal 1992 through fiscal 1996. This growth was driven primarily by

Scholastic's domestic book publishing revenues which have yielded a compounded growth rate of approximately 21%.

DOMESTIC BOOK PUBLISHING (71% OF REVENUES)

CHILDREN'S BOOK PUBLISHING

The Company has published books since 1948 and is one of the largest English language publishers of children's books. The majority of children's books sold by the Company are distributed in the United States and internationally directly to children and teachers through its school-based clubs and book fairs. The Company has created and maintained a long-standing franchise in the educational market and in addition, has significantly expanded its trade presence in recent years. As a result, Scholastic's domestic book publishing revenues have more than doubled from fiscal 1992 through fiscal 1996.

The Company offers a broad range of quality children's literature. Many of the books offered by the Company have received awards for excellence in children's literature, including the Caldecott and the Newbery awards. The Company obtains titles for sale in its distribution channels from three principal sources. First, the Company publishes paperback and/or hardcover editions of books written by outside authors under exclusive publication agreements with the Company or written by the Company's editorial staff. Scholastic generally owns rights to sell these original titles in all channels of distribution including school and trade. The second source for titles consists of paperback reprints of books originally published by other publishers for which the Company acquires rights under license agreements to sell exclusively in the school market. The third source for titles is from the Company's purchase of finished books from other publishers to be sold in the school market. The Company currently maintains a backlist (a list of titles published as new titles in prior years) of over 5,000 titles.

All of the Company's books are manufactured by independent printers. The printers generally are selected on a basis of competitive bidding, and the Company when it deems it to be appropriate, enters into multi-year agreements which guarantee printers a certain percentage of Scholastic volume in exchange for favorable pricing terms. Scholastic purchases its paper from paper manufacturers, wholesalers, distributors and printers.

The Company distributes its children's books principally through four distribution channels: school book clubs, school book fairs, sales to classrooms and libraries and trade distribution to retail bookstores. In the school market the Company distributes books directly to teachers and students through school book clubs (including continuity programs) and school book fairs. The Company believes that it is the largest operator of school book clubs and school book fairs in the United States. The Company also distributes books to the school market through sales to classrooms and libraries. The fourth distribution channel is sales to the trade market. The Company's trade channel has grown significantly in recent years, with sales in fiscal 1996 up in excess of 60% over fiscal 1995 and more than double the fiscal 1994 level. By utilizing these distribution channels and distributing its products internationally, the Company's volumes permit it to realize economies in book production and distribution. The Company believes its multiple distribution channels and volumes help attract top quality authors, editors, illustrators and publishers seeking widespread distribution in both the specialized school market and the trade market.

BOOK CLUBS

In fiscal 1996, the Company operated ten school-based book clubs: Firefly'r', serving pre-kindergarten and kindergarten students; SeeSaw'r', serving kindergarten and first grade students ('K-1' grades); two Carnival'r' clubs, one serving students in kindergarten through second grade and the other serving third through sixth grade students; Lucky Book Club'r', serving second and third grade students; Arrow Book Club'r', serving fourth through sixth grade students and TAB Book Club'r', serving sixth, seventh and eighth grade students. As of January 23, 1996, the Company acquired and began running three Trumpet clubs, which together serve pre-K through sixth grade students. In addition, the Company creates special theme based offers targeted to the different grade levels during the year, e.g. -- holiday offers, science offers, curriculum offers, Spanish offers etc. The Company also operates Fun-Tastic-At-Home!, The Baby-sitters Collector Club, and The Baby-sitters Little Sister Friendship Club,

Thrills & Chills, Clifford's Learning Library, Hello Reader, Box Car, Thriller, The Magic School Bus and Laugh Attack, which are book club continuity programs promoted primarily through schools, which deliver paperback books to children at home and bill parents at home.

The Company founded its first book club in 1948 and believes that it currently operates the largest school book club program in the United States. The Company estimates that over 80% of all elementary school teachers in the United States participate in book clubs, with more than 75% of these teachers using Scholastic book clubs sometime during the year. Domestic book club revenues have grown in recent years, primarily as a result of the expansion of book club continuity programs, volume increases in its school-based book clubs, the purchase of additional clubs, increases in special book club offers, and to a lesser degree, because of inflation-related price increases and the selection by children of higher-priced items.

The Company believes that teachers participate in school book clubs because they feel that quality books at affordable prices will be of interest to students and improve students' reading skills. The Company also believes teachers are attracted because the book clubs offer easy access to a broad range of books. The Company mails promotional pieces containing order forms to teachers in the vast majority of the pre-K through eighth grade classrooms in the United States on a monthly basis throughout the school year. Participation in any month does not create an obligation to participate in any subsequent month, nor does it preclude participation in a competitor's book club.

Teachers who wish to participate in a book club distribute the order forms to their students, who may choose from approximately 40 to 50 selections at substantial reductions from retail prices. The teacher consolidates the students' orders and payments and mails or phones them to the Company, which then delivers the books to the teacher for distribution to the students. Teachers who participate in the book clubs may accumulate credits for the purchase of additional books and other items primarily for use in their classrooms.

The sources of books for the Company's school book clubs are reprints licensed from other publishers for school distribution, original publications and finished books purchased from other publishers. The Company generally re-offers titles from its backlist through the book clubs every two or three years.

The Company processes and fulfills most orders for its book clubs, as well as for its other school sales (except book fairs) and trade distribution, from its warehouse and distribution facility in Jefferson City, Missouri. Orders for the book clubs are shipped to customers by Roadway Package System, United Parcel Service and U.S. Mail and generally are delivered within 14 days from when the teacher places the order in the mail.

The Jefferson City facility has an automated inventory picking and order processing system which allows the Company to provide a high level of customer service and timely delivery to its customers. Customer service representatives are also available to handle customer inquiries and expedite shipments.

In its book club business, the Company competes on the basis of book selection, price, promotion and customer service. The Company believes that its broad selection of titles, many of which are distributed in this channel exclusively by Scholastic, combined with low unit manufacturing costs and its large number of promotion mailings, enable the Company to compete effectively.

BOOK FAIRS

The Company believes it operates the largest school book fair business in the United States. The Company entered the book fair business in 1981 through an acquisition in California. In 1983, the Company became a national book fair operator as a result of its acquisition of Great American Book Fairs'r'. Since that time, the Company has grown its book fair business primarily through geographic expansion, selected acquisitions and increased penetration of its existing markets. The Company operates book fairs in all 50 states under the name Scholastic Book Fairs.

Book fairs are generally one week-long events conducted on school premises and sponsored by school librarians and/or parent-teacher organizations. Book fair events expose children to hundreds of

new books and allow children the opportunity to purchase books of their choice. Although the Company provides the school with the books and book display cases, the school actually conducts the book fair. The Company believes that the primary motivation of the schools is to provide their students with quality books at reasonable prices in order to help them become more interested in reading. In addition, the schools retain a portion of book fair sale proceeds to be used to purchase books, supplies and equipment for the school.

In fiscal 1994, the Company launched a new class of fairs called Scholastic Books on Tour'r'. This program features an expanded list of titles supported by exciting merchandise displays and book character costumes designed to create a dynamic Book Fair event open to the entire family.

Over two-thirds of all titles offered in the Company's book fairs are licensed reprints or are purchased directly from other publishers.

The Company operates its book fairs in the United States on a regional basis through 15 sales offices and 73 warehouse locations. The marketing of book fairs is performed from the sales offices by telephone sales representatives. The Company's books and display cases are delivered to schools from the Company's warehouses by a fleet of leased vehicles. The Company's customer service function is performed from the regional and branch offices, supported by field service representatives.

The Company believes that its competitive advantages in the book fair business includes the strength of the relationship between its sales representatives and schools, broad geographic coverage, a high level of customer service and breadth of product selection. Approximately 90% of the schools that sponsored a Scholastic Book Fair in fiscal 1995 sponsored a Scholastic Book Fair again in fiscal 1996.

TRADE

The Company distributes its original publications through the trade distribution channel. Almost all of the titles distributed to the trade market are also offered in the Company's school book clubs and book fairs. In the Company's publishing program, over 2,000 titles are maintained for trade distribution, including the popular Goosebumps'r', The Baby-sitters Club'r', The Magic School Bus'r', and Clifford The Big Red Dog'r' series. The Company believes that its increased presence in the trade market is important in attracting outside authors for publication and complements the Company's school-based book distribution businesses.

The Company has a field sales organization which focuses on selling the broad range of Scholastic books to book store accounts. Penguin USA performs invoicing, billing and collections for Scholastic in connection with trade distribution.

The Company's sales in the trade market are led by the highly successful Goosebumps'r' series, with 68 titles and 150 million copies in print, and The Baby-sitters Club'r' series, with 245 titles published and 149 million copies in print. Another Scholastic-developed property that also generates significant sales is The Magic School Bus'r' series with 23 titles published and 24 million copies in print. Series such as I Spy'tm', Clifford The Big Red Dog'r' and Hello Reader'r' continue to anchor the successful Cartwheel Books'r' imprint. The Scholastic Children's Dictionary is being published in the Summer of 1996 and will greatly enhance the reference line which already includes successful series such as First Discovery and Voyages of Discovery. The Blue Sky Press'r' and Scholastic Press'r' imprints have attracted some of the best talents in children's publishing, including Eve Bunting, Leo and Diane Dillon, Virginia Hamilton, Barry Moser, Walter Dean Myers, Dav Pilkey, Cynthia Rylant, Mark Teague, Nancy Willard and Ed Young.

CLASSROOM AND LIBRARY SALES

Many elementary school teachers use paperback books in conjunction with basal textbooks to teach reading and other subjects. In addition to offering book clubs and book fairs, Scholastic serves this need by offering individual titles and collections of paperback books for classrooms and school libraries. In fiscal 1996, approximately two-thirds of the school districts in the United States ordered books and collections from the Company. The majority of the titles sold directly to school classrooms and libraries are the same as those offered through the Company's book clubs and book fairs.

The purchase of individual titles and book collections are generally funded by school budgets. Classrooms and libraries may order directly through catalogs mailed to the schools and through the Company's school sales force. Processing and fulfillment of these orders are handled in the Jefferson City distribution center.

INSTRUCTIONAL PUBLISHING

The Instructional Publishing group develops and distributes instructional materials (both supplemental and core-curriculum programs) directly to schools in addition to managing classroom and library sales of children's books through the Company's school sales force. Based on industry research, the Company believes that the K-6 market for instuctional material in such areas as language arts, math, science, social studies, health, etc. is in excess of $2.0 billion annually.

Publishing for the K-6 market is being affected by a number of factors, including the shift toward skill-based instruction balanced with the philosophy of literature-based instruction (the teaching of reading and other subjects utilizing whole books such as trade or paperback books) and the increasing role of teachers in selecting materials for use in the classroom. Additionally, there is increasing flexibility in 'adoption' states, where state boards approve or 'list' instructional materials that local school boards, individual schools and teachers can purchase. In these states, the state boards are listing a greater number of instructional materials, thereby giving the local school boards, individual schools and teachers a wider range of instructional materials from which to select.

The Company believes that these changes provide an opportunity to substantially expand its presence in the instructional materials market. To capitalize on this opportunity, the Company's strategies are the following: publish multimedia programs which provide schools with innovative alternatives to programs offered by other publishers; concentrate its publishing in the K-6 grade market, which is the largest part of the market; focus its publishing in language arts and science where the Company has successful book and magazine publishing programs; use existing books and magazines from other Scholastic publishing groups; and cross-market its new programs to the more than one million teachers who currently participate in Scholastic's book clubs and use its magazines. To implement these strategies, the Company has expanded its marketing and editorial staff and is investing in training and expanding its school sales force.

Pursuant to this strategy, the Company completed the publication of Scholastic Literacy Place'r' its K-6 reading program, and Solares'tm', a Spanish elementary reading program. The Company is pleased with the market reaction to Scholastic Literacy Place'r', especially in Florida and certain midwestern states. The program is also being submitted for adoption in California, the single largest adoption market, and several other states. The Company is confident the program meets the curriculum requirements for California and those other states.

In fiscal 1996, the Company also completed a revision and update of its popular K-6 grade science program, Scholastic Science Place'r'. Sales of Scholastic Science Place in Kentucky, Alabama and other states were strong. The Company expects continued success in open terrritory states with the updated program as it plans the publication of the second edition of Scholastic Science Place.

The Company expanded Wiggleworks'r', its standard-setting CD-ROM based beginning literacy program, to include a Windows'r' version, in addition to the popular Macintosh-based product. Also, a network version will be ready for shipment in fiscal 1997.

The Early Childhood publishing division's, The Early Childhood Workshop'tm', a pre-kindergarten and kindergarten core-curriculum program, was successfully sold in Texas primarily in the Company's first quarter of fiscal 1996, garnering approximately two-thirds of the market. The total spending on prepublication costs relating to these core-curriculum programs in early childhood, reading, language arts, science, technology and math has been approximately $100.0 million from fiscal 1991 to fiscal 1996.

In the fourth quarter of fiscal 1996, the Company recorded a charge for programs that did not meet market needs or are being deemphasized. This charge consisted of the unamortized prepublication and inventory costs of the Company's K-2 math program and several older supplemental instructional programs.

MAGAZINE PUBLISHING (9% OF REVENUES)

GENERAL

Scholastic complements its school-based book publishing business with the publication of classroom magazines, which are used as supplementary educational materials, and professional magazines, directed at teachers and education professionals. Most of the Company's classroom and professional magazines carry the Scholastic name, which reinforces the Company's widely recognized educational reputation with students, teachers and school administrators. The Company's reputation for publishing quality magazines, maintaining an extensive magazine mailing list and having a large customer base of teachers helps generate customers for its book clubs and other Scholastic products as well as its magazines. At the same time, the Company uses its book club mailings to help secure additional circulation for its classroom and professional magazines. The Company also publishes two consumer magazines for small business and home office professionals and a magazine for parents of children in pre-K and Kindergarten classes.

CLASSROOM MAGAZINES

The Company's 34 classroom magazines are designed to encourage students to read and to supplement the formal learning program by bringing subjects of current interest into the classroom. The subjects covered include English, reading, literature, math, science, current events, social studies and foreign languages. The most well known of the Company's U.S. magazines are Scholastic News'r' and Junior Scholastic'r'.

The Company's classroom magazine circulation in the United States for fiscal 1996 was 7.1 million. Approximately two-thirds of the circulation is in the K-6 grades, with the balance in grades seven through twelve. In fiscal 1996, teachers in approximately 60% of the elementary schools and 70% of the high schools in the United States used the Company's classroom magazines.

The various classroom magazines are distributed on a weekly, bi-weekly or monthly basis during the school year. A majority of circulation revenue is paid for by the schools and the remainder by students. Circulation revenue accounted for approximately two-thirds of the Company's classroom magazine revenues in fiscal 1996. Several of the magazines distributed in secondary schools carry advertising.

The Company markets its classroom magazines largely by direct mail and telephone sales representatives. The Company maintains an extensive database of teachers and schools which it utilizes for promotional efforts. The order processing for classroom magazines is conducted at the Company's Jefferson City facility.

Additionally, the Company develops and distributes customized marketing programs sponsored by major corporations, government agencies and other organizations which want to reach young people and educators. Customized programs may include single-sponsor magazines, posters, teaching guides, integrated teaching kits, educational videos and other promotional media. In fiscal 1996, the Company developed programs for the United States Department of Agriculture, Discover Card Services, Inc., Fuji Photo Film USA, NYNEX Corporation, the Michael Jordan Foundation, Paramount Pictures Inc. and AT&T.

PROFESSIONAL PUBLISHING AND EARLY CHILDHOOD PUBLISHING

The Company publishes four magazines directed at teachers and educational professionals: Instructor'tm', Early Childhood Today'tm', Electronic Learning'r' and Scholastic Coach. Total circulation for these magazines in fiscal 1996 was in excess of 400,000. The magazines are distributed throughout the academic year. Subscriptions are solicited by direct mail to teachers and subscriptions are cross-marketed to teachers through the book clubs. The Company also publishes Scholastic Parent and Child 'r' magazine, which is directed at parents and distributed through schools and day care programs. Scholastic Parent and Child's circulation is approximately 1.0 million. The magazines carry outside advertising, advertising for the Company's other products and advertising for clients that sponsor customized programs. Sponsors include Microsoft Corp., Apple Computer, Viacom International Inc., General Mills, Inc., Disney and the Chrysler Corporation. In fiscal 1996, advertising revenue represented the majority of the professional publishing and early childhood magazine revenues.

The professional publishing division also publishes professional books and continuity programs consisting of instructional materials designed for and generally purchased by teachers. Professional books are marketed through Scholastic book clubs, catalogs, direct mail solicitations and by the Company's trade sales force to teacher stores and book stores. The early childhood division also publishes children's books and a pre-K and kindergarten curriculum program, The Early Childhood Workshop. In fiscal 1996, sales of The Early Childhood Workshop represented approximately two-thirds of the market share in the Texas state adoption, producing revenues of approximately $20.0 million. Revenues from these items are included in domestic book publishing revenues.

SCHOLASTIC SOHO GROUP

In 1983, the Company introduced a national consumer magazine, now called Home Office Computing'r'. In its 13th year, Home Office Computing is a leading magazine for technology reliant home office professionals. In recognition of the magazine's rapidly expanding franchise as the leading publisher for the small office and home office ('SOHO') market, the Company reorganized this business as the SOHO group. In fiscal 1996, the group launched a sister publication entitled Small Business Computing'tm'. This new offering, combined with the growth of custom publishing, is expected to result in higher revenues for the SOHO group in fiscal 1997. With combined circulation of 560,000, both magazines attract companies such as America Online, Epson, IBM, Microsoft Corp. and Hewlett Packard, among others, as its principal advertisers. In fiscal 1996, the SOHO group carried 890 pages of advertising. The group also provides specialized newsletters and books. It also has a presence on America Online and the World Wide Web and sells sponsorships for both sites.

VIDEO AND NEW MEDIA (4% OF REVENUES)

FILMED ENTERTAINMENT AND MARKETING AND CONSUMER PRODUCTS

Scholastic Productions, Inc. ('SPI'), a wholly-owned subsidiary of the Company, extends the Company's franchises worldwide by developing and producing quality children's programming for distribution in multimedia formats. In addition, SPI licenses and develops products originated by third parties. SPI orchestrates consumer marketing campaigns and manages the licensing of consumer products and promotions for each franchise. SPI is also responsible for the selection of video cassettes sold through the book clubs and for sales of books and other products through non-traditional channels.

In fiscal 1996, the SPI-produced The Magic School Bus'tm' ('MSB') television series aired its second season on PBS and completed production of an additional 13 episodes for the third season. Thirteen additional episodes will be produced in fiscal 1997, bringing the series total to 52. The series will air daily in fall 1996. MSB, which has won numerous awards including an Emmy for Lily Tomlin, is the most popular series for school-aged children on PBS. In November 1995, SPI launched the Traveling Magic School Bus, an actual recreation of the bus from the book and animated series, which through April 1996 has traveled around the country visiting over 50 schools, libraries, retail stores and book fairs, reaching nearly 250,000 fans. In addition to the continuation of the domestic marketing and consumer products program for MSB, SPI initiated an international licensing program during fiscal 1996 in conjunction with independent licensing agents in the United Kingdom, Italy, Germany and France. The series' television rights have been licensed in all major international territories by Nelvana Ltd., Scholastic's international distributor. Warner Home Video successfully continued to release the episodes of the first two seasons domestically on video cassette. SPI co-produced its third and fourth in a series of MSB CD-ROM's with Microsoft Corporation on Oceans and Geology. All MSB CD-ROM's are in the top 20 best-selling titles for children.

In October 1995, the SPI-produced Goosebumps'r' TV series premiered with a one-hour special on the Fox Children's Network ('FCN'). The first 13 episodes of Goosebumps aired this fiscal year and was rated the #1 children's series on television. The inaugural video cassette released by Fox Home Video in March 1996, the premiere one-hour prime time special, 'The Haunted Mask', was on the list of top-selling videos when initially released. An additional 17 episodes and four one hour specials have been ordered by FCN; two of the specials aired in fiscal 1996, with the balance to air during the 1996/1997 broadcast year. The success of the TV series has helped launch a very successful Goosebumps marketing and consumer products program. There are currently 33 Goosebumps licensees producing

over 1,000 different products. In addition, during fiscal 1996, SPI was able to secure major domestic promotional campaigns with General Mills and Kraft. Major domestic consumer promotions planned for fiscal 1997 include four divisions of PepsiCo (Taco Bell, Frito Lay, Pepsi and Pizza Hut), as well as the Hershey Corporation. Saban International, on behalf of FCN, is currently licensing Goosebumps TV rights internationally. During fiscal 1997, Goosebumps marketing and consumer products programs will launch internationally in Australia, New Zealand, the United Kingdom, Germany and Canada. The first Goosebumps CD-ROM is expected to be released by DreamWorks SKG, in conjunction with their partner Microsoft Corporation, during fiscal 1997.

Other Scholastic franchises in development for potential multimedia exploitation include Animorphs'tm', one of the Company's new children's book series. SPI also has a variety of original children's and family oriented projects in development as the basis of future programming opportunities.

During fiscal 1996, SPI-produced properties, including The Magic School Bus and Goosebumps TV series episodes, as well as the feature films Indian in the Cupboard and The Baby-sitters Club, generated strong video cassette sales through Scholastic's Book Clubs. Book sales through non-traditional channels increased as a result of strong merchandising placement for the Company's franchises in retail accounts as well as promotional premium book opportunities working cooperatively with SPI's marketing group. These book revenues are included in domestic book publishing revenues.

TECHNOLOGY AND NEW MEDIA

In fiscal 1994, the Company created a technology and new media division. The mission of this division is threefold: (1) publish and sell educational software and multimedia products to schools and homes; (2) support other Scholastic divisions' technology efforts (including the creation and integration of technology components into the Instructional Publishing group's core-curriculum materials); and (3) explore and develop opportunities in telecommunications and interactive networks, including the Scholastic Network'tm', which is available to educators via America Online and the Internet, as well as Internet-based applications for delivery of Scholastic products and services.

The Company has published educational computer software since 1982, which is sold to schools by sales representatives, catalog and other direct marketing methods and educational distributors serving the school market. The Company also sells consumer software through book clubs and, since 1991, has also sold software through a classroom software club modeled after its classroom book clubs. In fiscal 1997, the Company will launch a second software club aimed at younger children. The Company acquires software for distribution in all of these channels through a combination of licensing, internal development, contracting with independent software developers and third-party distribution arrangements.

In fiscal 1994, the Company launched, through a special arrangement with America Online, the Scholastic Network'tm', the first online service developed especially for educators and students. It offers compelling in-class experiences for the kindergarten through twelfth grade market and will be available on the Internet in fiscal 1997. Also in fiscal 1994, the Company initiated a corporate presence on the Internet with a home page on the World Wide Web. Scholastic.com provides users of the World Wide Web with an overview of the Company's activities, resource libraries for educators, an education store and special programming tied to Scholastic Network's content. In fiscal 1997, the Scholastic Network'tm' will be part of Scholastic.com as a paid service.

Scholastic increased its video presence with the acquisition in fiscal 1996 of Weston Woods Studios, Inc., a producer of award-winning videos of animated versions of children's books.

Revenues from video and new media group in the aggregate have historically been less than 5% of the Company's revenues and profitability has been marginal. The Scholastic Network'tm' has generated a loss since its launch in fiscal 1994.

INTERNATIONAL (16% OF REVENUES)

Scholastic conducts its international operations through six wholly-owned subsidiaries located in Canada, Australia, the United Kingdom, New Zealand, France and Mexico. The operations in France and Mexico are tests of school-based distribution in these countries while the Company's other

subsidiaries publish and distribute children's books, magazines, supplementary text products and educational software. In fiscal 1996, approximately 80% of international revenues were derived from the sale of children's books.

The Company markets its products internationally in the same manner as in the United States and, therefore, markets primarily to schools through book clubs and book fairs. Although book clubs account for the largest share of international revenues, book fairs and the trade market have grown rapidly in recent years.

Each subsidiary is responsible for its own editorial, production, sales and fulfillment operations. The Canadian subsidiary distributes a substantial percentage of United States originated Scholastic books, whereas the United Kingdom subsidiary distributes very few. Scholastic products that were originated in the United States account for approximately 40% of Australia's and New Zealand's lines of children's books.

In fiscal 1996, the Company acquired School Book Fairs Ltd. ('School Book Fairs'), the United Kingdom subsidiary of Pages Inc. The Company is in the process of integrating School Book Fairs with its own school book fair business, Scholastic Book Fairs, to form a single operating unit while continuing to market the two separate and competitive book fair brands.

In fiscal 1994, the Company purchased the United Kingdom based Mary Glasgow Publications, a publisher of foreign language and English language reading magazines which are distributed throughout Europe and North America. Scholastic's domestic classroom magazine division distributes these foreign language magazines in the United States and Scholastic's Canadian subsidiary markets these in Canada.

COMPETITION

The domestic market for educational materials is highly competitive. Competition is based on the quality and range of educational materials made available, price, promotion and customer service. There are many competitors in the domestic educational materials market, including one other national school book club operator, two other national school book fair operators (together with smaller regional operators, including local bookstores), numerous other paperback book, textbook and supplementary text publishers, national publishers of classroom, professional and personal computer magazines with substantial circulation, producers of programming, and publishers of computer software. Competition may increase further to the extent that other entities enter the market and to the extent that current competitors or new competitors develop and introduce new educational materials that compete directly with the educational materials distributed by the Company.

The Company also has numerous competitors in each of the foreign countries in which it conducts business.

EMPLOYEES

As of May 31, 1996, Scholastic employed approximately 3,800 persons in full-time jobs and 650 in hourly or part-time jobs in the United States and approximately 1,000 persons in its international subsidiaries. The number of part-time employees fluctuates during the year because the Company's business is closely correlated with the school year. The Company believes that its relations with employees are good.

COPYRIGHT AND TRADEMARKS

The name 'Scholastic' is a registered trademark in the United States and in countries where the Company has international subsidiaries. The Company has also registered in the United States the names of each of its major domestic book clubs, the titles of its major magazines and the names of all of its core-curriculum programs. The Company's international subsidiaries have also registered some names of their respective book clubs and magazines. Although individual book titles are not subject to trademark protection, the Company has registered the names of certain series, such as The Baby-sitters Club'r' and The Magic School Bus'r'.

All of the Company's publications, including books, magazines and software, are subject to copyright protection. Copyright and trademark infringement is vigorously defended by the Company and, as necessary, outside counsel may be retained to assist in such protection.

ITEM 2. PROPERTIES

The principal facilities of the Company are as follows:

LOCATION	USE	SIZE	OWNED/LEASED
UNITED STATES			
New York, New York	Offices	418,924 sq. ft.	Leased
Jefferson City, Missouri	Office and warehouses	1,257,262 sq. ft.	Owned
Des Plaines, Illinois	Warehouse	127,800 sq. ft.	Leased
Anaheim, California	Office and warehouse	64,570 sq. ft.	Leased
Monroe, Connecticut	Office and warehouse	50,000 sq. ft.	Leased
Lake Mary, Florida	Office and warehouse	45,000 sq. ft.	Owned
	Land only	4.2 acres	Owned
Longwood, Florida	Office and warehouse	42,000 sq. ft.	Owned
Elk Grove, Illinois	Office and warehouse	39,416 sq. ft.	Leased
Lyndhurst, New Jersey	Accounting and information processing center	30,510 sq. ft.	Leased
Boone County, Missouri	Office and warehouse	15,000 sq. ft.	Owned
San Diego, California	Office and warehouse	10,104 sq. ft.	Leased
Tempe, Arizona	Office and warehouse	8,584 sq. ft.	Leased
Norwalk, Connecticut	Warehouse	6,385 sq. ft.	Leased
Weston, Connecticut	Office	5,882 sq. ft.	Owned
Bartlett, Tennessee	Office and warehouse	5,550 sq. ft.	Leased
INTERNATIONAL			
Gosford, N.S.W., Australia	Office and warehouses	119,007 sq. ft.	Owned
	Land only	10 acres	Owned
Victoria, Australia	Land and residence	24 acres	Owned
Somersby, N.S.W., Australia	Land only	17 acres	Owned
Lindfield, Australia	Office	12,411 sq. ft.	Leased
Richmond Hill, Ontario, Canada	Office and warehouse	85,364 sq. ft.	Owned
	Office and warehouse	108,302 sq. ft.	Leased
	Land only	5 acres	Owned
Southam, England	Office and warehouse	51,500 sq. ft.	Owned
	Warehouse	48,851 sq. ft.	Leased
Christchurch, England	Office and Warehouse	33,792 sq. ft.	Leased
Leamington Spa, England	Office	23,358 sq. ft.	Leased
London, England	Office	9,230 sq. ft.	Leased
Sussex, England	Warehouse	7,420 sq. ft.	Leased
Somerset, England	Warehouse	6,630 sq. ft.	Leased
Paris, France	Warehouse	4,779 sq. ft.	Leased
Mexico City, Mexico	Office and warehouse	6,466 sq. ft.	Leased
Auckland, New Zealand	Office and warehouse	39,197 sq. ft.	Leased

In addition to the facilities listed, the Company's book fairs lease various regional warehouse locations in the United States comprising 715,314 square feet in total. The Company also owns or leases other smaller facilities and property in the United States, Canada, Australia, the United Kingdom, New Zealand and France. Management believes that these facilities are adequate and suitable for the Company's current needs.

See Note 5 -- 'Commitments' in the Notes to Consolidated Financial Statements for information concerning the Company's obligations under all leases.

ITEM 3. LEGAL PROCEEDINGS

A number of lawsuits and administrative proceedings which have arisen in the ordinary course of business are pending or threatened against the Company. The Company believes there are meritorious defenses to substantially all such claims.

From time to time the Company is involved in proceedings with states seeking to collect sales and use taxes, for which the Company accrues a reserve it believes to be adequate.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

No matters were submitted to a vote of the holders of the Company's Common Stock during the last quarter of its fiscal year ended May 31, 1996.

PART II

ITEM 5. MARKET FOR THE REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

The Company's Common Stock is traded on the Nasdaq National Market'r' system under the symbol SCHL. Class A Stock is convertible into Common Stock on a share-for-share basis. The table below sets forth, for the periods indicated, the quarterly and one year high and low selling prices on the Nasdaq'r'-Nasdaq National Market'r' system for the Company's Common Stock.

	YEAR ENDED MAY 31,			
	1996		1995	
	HIGH	LOW	HIGH	LOW
First Quarter	66 3/4	52 1/4	46 1/2	35 1/2
Second Quarter	71	58 3/4	50	45
Third Quarter	78 3/4	65 3/4	53 3/4	45 3/4
Fourth Quarter	73 3/4	60	57	49 3/4
Year	78 3/4	52 1/4	57	35 1/2

The Company has not paid any dividends since its initial public offering and has no current plans to pay any dividends on its Common Stock and Class A Stock. In addition, certain of the Company's credit facilities restrict payments of dividends. See Note 4 of the Notes to Consolidated Financial Statements.

The approximate number of holders of Class A and Common Stock as of June 30, 1996 were 3 and 6,000, respectively.

On August 18, 1995, the Company sold $110.0 million of 5.0% Convertible Subordinated Debentures due August 15, 2005 (the 'Debentures') under Regulation S and Rule 144A of the Securities Act of 1933. The Debentures are listed on the Luxembourg Stock Exchange and the Debentures offered pursuant to Rule 144A are designated for trading in the Portal system of the National Association of Securities Dealers, Inc. See Note 4 of the Notes to Consolidated Financial Statements.

ITEM 6. SELECTED FINANCIAL DATA

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

	1996	1995	1994	1993	1992
STATEMENT OF INCOME DATA:					
Total revenues	$928,599	$749,891	$631,590	$552,277	$489,345
Cost of goods sold	466,030	355,968	297,069	265,675	236,032
Selling, general and administrative expenses	367,376	316,263	271,354	231,736	203,903
Other operating costs:					
Goodwill, Trademarks, and License amortization and depreciation	13,054	10,010	7,603	5,808	6,134
Impairment of assets	24,304(1)	--	--	--	--
Other charges	--	--	--	--	10,291(2)
Operating income	57,835	67,650	55,564	49,058	32,985
Interest expense, net	11,170	5,395	2,856	2,259	11,408
Net income	31,897(3)	38,578	24,794(4)	28,104	12,953
Net income per share -- fully diluted	$1.97(3)	$2.37	$1.53(4)	$1.75	$1.05
Weighted average shares outstanding -- fully diluted	17,341	16,286	16,155	16,430	13,329
BALANCE SHEET DATA (END OF YEAR):					
Working capital	$177,082	$136,775	$100,297	$ 62,997	$ 64,513
Total assets	673,166	505,864	390,040	263,191	226,043
Long-term debt	186,810	91,518	39,605	3,261	23,387
Stockholders' equity	288,647	250,213	205,832	153,493	111,707

(1) Fiscal 1996 includes a non-cash charge relating to the impairment of certain assets of $24,304. A significant portion of this charge was determined in connection with the Company's early adoption of Statement of Financial Accounting Standards No. 121, which requires an evaluation of the realization of long-lived asset carrying values. This charge consists of the unamortized prepublication ($10,809) and inventory ($13,495) costs of the Company's K-2 math program, several older supplemental instructional publishing programs and other selected titles. The fully diluted impact of the charge is $0.88 per share.

(2) Fiscal 1992 includes a provision for nonrecurring relocation charges of $4,100 relating to the consolidation of the Company's New York staff and includes a provision for a nonrecurring charge of $6,191, relating to the restructuring of the Company's financial commitment for theatrical motion picture productions. The combined fully diluted impact of these provisions is $0.46 per share.

(3) Fiscal 1996 net income and net income per share-fully diluted excluding the $24,304 non-cash charge would have been $46,801 and $2.85, respectively.

(4) Fiscal 1994 includes a provision for a nonrecurring charge of $8,135 (net of tax) with a fully diluted impact of $0.51 per share relating to the cumulative effect of changes in accounting principles due to the adoption of financial accounting standards on postretirement benefits (other than pensions), postemployment benefits and income taxes. Also included is a $1,305 tax benefit to reflect the effect on net deferred income taxes resulting from the increase in the federal tax rate from 34% to 35%.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion and analysis should be read in conjunction with the Consolidated Financial Statements and related Notes and Selected Financial Data.

FISCAL 1996 COMPARED TO FISCAL 1995

Fiscal 1996 revenues increased approximately 24% from $749.9 million in fiscal 1995 to $928.6 million in fiscal 1996.

Domestic book publishing revenues accounted for a majority of the Company's revenues in both fiscal 1996 and fiscal 1995. Domestic book publishing revenues increased 27% from $516.8 million in fiscal 1995 to $657.5 million in fiscal 1996. Book clubs (including continuity programs) accounted for 43% of domestic book publishing sales in fiscal 1996. Book club revenues increased approximately 12% over fiscal 1995 primarily as a result of the growth and expansion of the book club continuity programs and the purchase of Trumpet book clubs. The trade or retail based distribution channel accounted for 21% of domestic book publishing sales in fiscal 1996. It led the increase in domestic book publishing by recording more than 60% growth in fiscal 1996 over fiscal 1995. This growth reflects the continued success of the Company's series publishing, particularly the Goosebumps book series. Book fairs accounted for approximately 19% of domestic book publishing sales in fiscal 1996 and generated sales growth in excess of 20%, as a result of an increased number of fairs held and an increase in the average revenue generated per fair. Also included in domestic book publishing revenues are sales of instructional materials to schools. Instructional publishing sales accounted for approximately 13% of domestic book publishing revenues in fiscal 1996 and experienced a growth of 56% due largely to the success of the Early Childhood Workshop sales recorded in the first quarter of fiscal 1996 relating to the Texas adoption.

Domestic magazine publishing revenue decreased 3% from $84.0 million in fiscal 1995 to $81.6 million in fiscal 1996. Domestic magazine publishing revenues are comprised primarily of advertising revenues and circulation revenues. A decrease in circulation revenues of $1.9 million from fiscal 1995 contributed to the majority of the decrease in domestic magazine publishing revenue. The Company's SOHO group accounted for 25% of total domestic magazine publishing revenues and had an increase of 16% from fiscal 1995 as a result of increased advertising and custom publishing revenues.

Domestic video and new media revenues more than doubled from $19.5 million in fiscal 1995 to $39.8 million in fiscal 1996. This revenue growth was led by Scholastic Productions, Inc., due in a large part to the increase in television programming, merchandising and licensing revenue of $13.8 million from fiscal 1995. The success of the Goosebumps and Magic School Bus television series were major contributors to this increase.

International revenues grew by 16% in U.S. dollars from $129.5 million in fiscal 1995 to $149.7 million in fiscal 1996. Sales increases in Canada, the United Kingdom and Australia were fueled by strong trade sales. The United Kingdom also showed an increase in book fair sales, in part due to the March 1996 acquisition of School Book Fairs Ltd.

Cost of goods sold increased 31% from $356.0 million in fiscal 1995 to $466.0 million in fiscal 1996. Cost of goods sold as a percentage of revenues increased from 47.5% in fiscal 1995 to 50% in fiscal 1996 primarily due to the Company's sales mix, specifically the impact of trade sales growth, which has a higher cost of sales than the Company's other channels. The major components of cost of goods sold and their respective approximate percentage of total cost of goods sold in fiscal 1996 were as follows: printing and binding (27%), paper (19%), royalty expense (12%) and editorial expense (10%). The balance of cost of goods sold includes amortization of prepublication costs, shipping and labor, delivery charges and other manufacturing costs.

Selling, general and administrative expenses increased by 16%, from $316.3 million in fiscal 1995 to $367.4 million in fiscal 1996, due to volume increases in trade and increased costs associated with the launch of Scholastic Literacy Place. Selling, general and administrative expenses decreased as a percentage of revenues due to sales mix, specifically the impact of trade sales growth, which has lower selling, general and administrative expenses than the Company's other channels (42% in fiscal 1995 and 40% in fiscal 1996). Marketing and promotion costs, which include the costs of catalogs, direct mail,

book club kits, book club credits and advertising, constituted approximately 57% of selling, general and administrative expenses in fiscal 1996 compared to 58% in fiscal 1995. The balance of selling, general and administrative expenses is comprised of facility-related costs, office equipment rentals, salary and salary related expenses.

Other operating costs increased from $10.0 million in fiscal 1995 to $37.4 million in fiscal 1996. In the fourth quarter of fiscal 1996, the Company incurred a non-cash charge related to the impairment of certain assets of $24.3 million. A significant portion of this charge was determined in connection with the Company's early adoption of Statement of Financial Accounting Standards No. 121 (SFAS 121), 'Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed of'. The charge consists of the unamortized prepublication ($10.8 million) and inventory ($13.5 million) costs of the Company's K-2 math program, several older supplemental instructional publishing programs and other selected titles.

Operating income, excluding the fourth quarter charge of $24.3 million, increased 21% from $67.7 million in fiscal 1995 to $82.1 million in fiscal 1996. Operating income (excluding the charge) as a percentage of sales has remained stable at approximately 9.0%. Operating income and profit margins for the Company's international operations increased in fiscal 1996 compared to fiscal 1995 due to growth in the Australian, United Kingdom and Canadian subsidiaries' businesses.

Net interest expense increased from $5.4 million in fiscal 1995 to $11.2 million in fiscal 1996. This increase was attributable to higher debt levels in part resulting from the August 18, 1995, issuance of $110.0 million of the Debentures. During fiscal 1996 higher debt levels were necessary to fund working capital growth arising from increased sales and changes in mix of sales. Higher debt levels also helped fund various business acquisitions in fiscal 1996 which totalled $32.1 million.

Earnings before provision for income taxes decreased 25% from $62.3 million in fiscal 1995 to $46.7 million in fiscal 1996. Excluding the $24.3 million charge, earnings would have increased approximately 14% from $62.3 million in fiscal 1995 to $71.0 million in fiscal 1996.

Income tax expense decreased from $23.7 million in fiscal 1995 to $14.8 million in fiscal 1996. In fiscal 1996 and 1995, the Company's effective tax rates were 31.6% and 38.0% of earnings before taxes, respectively. The decrease in the effective tax rate is primarily due to the tax benefit realized from charitable contributions, as well as the Company's utilization of foreign tax credit carryforwards in fiscal 1996.

Net income decreased from $38.6 million in fiscal 1995 to $31.9 million in fiscal 1996. The primary and fully diluted net income per Class A, Common and Class A Share and Common Share Equivalents was $1.97 in each case in fiscal 1996 and $2.38 and $2.37, respectively, in fiscal 1995.

Excluding the effect of the fourth quarter charge relating to the impairment of assets, fiscal 1996 net income and fully diluted earnings per share would have been $46.8 million and $2.85, respectively.

FISCAL 1995 COMPARED TO FISCAL 1994

Revenues for fiscal 1995 totaled $749.9 million, an increase of approximately 19% compared to fiscal 1994 revenues of $631.6 million.

Domestic book publishing revenues accounted for a majority of the Company's revenues in both fiscal 1995 and 1994 and increased 21% from $428.3 million in fiscal 1994 to $516.8 million in fiscal 1995. The increase in domestic book publishing revenues resulted from double digit increases in book club, trade and book fair revenues. The Company experienced increased volume in all of its distribution channels for childrens books. Inflation-related price increases also contributed, to a lesser extent, to the revenue increases. Book clubs accounted for 49% of domestic book publishing sales. Growth in book clubs resulted from additional teachers sponsoring Scholastic book clubs, the expansion of book club continuity programs and, to a lesser degree, because of inflation-related price increases and the selection by children of higher priced items. Book fairs, the Company's second largest distribution channel, generated sales growth in excess of 20% as a result of an increased number of fairs held and an increase in the average revenue generated on a per fair basis. The trade or retail based distribution channel recorded more than a 60% growth, primarily due to the success of the Goosebumps book series. In

addition, domestic book publishing revenues include the sales of instructional materials to schools. Instructional publishing revenues remained virtually unchanged from fiscal 1994.

Domestic magazine publishing revenues totaled $84.0 million in fiscal 1995 and were 15% greater than fiscal 1994 revenues of $73.0 million. Domestic magazine publishing revenues are comprised primarily of advertising revenues and circulation revenues. Advertising revenues increased 35% from fiscal 1994 to $37.3 million in fiscal 1995. Circulation revenues remained virtually unchanged from fiscal 1994. A substantial portion of the domestic magazine revenue growth came from the Company's Home Office Computing magazine which experienced a 35% revenue increase, in addition to the launch of the national 'Reading Together' program created by the Company and sponsored by the Chrysler Corporation.

Domestic video and new media revenues increased 8% from fiscal 1994 to $19.5 million in fiscal 1995.

International revenues grew by 15% in U.S. dollars from $112.3 million in fiscal 1994 to $129.5 million in fiscal 1995. This revenue growth was led by sales increases in Canada with strong trade sales in each of the other subsidiaries combined with favorable currency translation.

Cost of goods sold increased 20% from $297.1 million in fiscal 1994 to $356.0 million in fiscal 1995. Cost of goods sold as a percentage of revenues increased slightly from 47% in fiscal 1994 to 47.5% in fiscal 1995 primarily due to sales mix, specifically the impact of trade sales growth, which has a higher cost of sales than the Company's other channels. The major components of cost of goods sold and their respective approximate percentage of total cost of goods sold in fiscal 1995 were as follows: printing and binding (30%), paper (18%), royalty expense (11%), and editorial expenses (12%). The balance of cost of goods sold includes amortization of prepublication costs, shipping and labor, delivery charges, and other miscellaneous manufacturing costs. As a percentage of total cost of goods sold, each of these components did not change significantly from fiscal 1994.

Selling, general and administrative expenses increased by 17%, from $271.4 million in fiscal 1994 to $316.3 million in fiscal 1995 due to volume increases in book clubs and trade and increased costs associated with the continued expansion of the Company's instructional publishing business. Selling, general and administrative expenses decreased as a percentage of revenues due to sales mix (43% in fiscal 1994 and 42% in fiscal 1995). Marketing and promotion costs, which include the costs of catalogs, direct mail, book club kits, book club credits, and advertising, constituted approximately 58% of selling, general and administrative expenses in both fiscal 1995 and in fiscal 1994. The balance of selling, general and administrative expenses is comprised of facility-related costs, office equipment rentals, salary, and salary-related expenses.

Other operating costs increased from $7.6 million in fiscal 1994 to $10.0 million in fiscal 1995. Other operating costs include the amortization of intangible assets and depreciation.

Operating income increased 22% from $55.6 million in fiscal 1994 to $67.7 million in fiscal 1995. Operating income of the Company's domestic operations improved in fiscal 1995 compared to fiscal 1994. Operating income profit margins of domestic operations also improved reflecting significant growth in book publishing margins and improvements in magazine publishing margins which more than offset the increase in costs related to the instructional publishing expansion. Operating income and profit margins for the Company's international operations increased in fiscal 1995 compared to fiscal 1994 due to growth in the Canadian subsidiary's businesses.

Net interest expense increased from $2.9 million in fiscal 1994 to $5.4 million in fiscal 1995. This increase was mostly attributable to higher debt levels during fiscal 1995, which resulted from additional funding provided for prepublication costs, capital expenditures, additional working capital to support sales growth and, to a lesser extent, an increase in rates.

Earnings before provision for income taxes and the cumulative effect of accounting changes increased 18% from $52.7 million in fiscal 1994 to $62.3 million in fiscal 1995.

Income tax expense increased from $19.8 million in fiscal 1994 to $23.7 million in fiscal 1995. Income tax expense for fiscal 1994 included a $1.3 million tax benefit to reflect the effect on net deferred income taxes resulting from the increase in the federal tax rate from 34% to 35%. In fiscal

1995 and fiscal 1994, the Company's effective tax rates were 38.0% and 37.5% of earnings before taxes, excluding the cumulative effect of accounting changes, respectively.

Earnings before cumulative effect of accounting changes increased from $32.9 million in fiscal 1994 to $38.6 million in fiscal 1995. The primary and fully diluted net income per Class A, Common, and Class A Share and Common Share Equivalents (excluding cumulative effects of accounting changes) was $2.38 and $2.37, respectively, and $2.04 in each case in fiscal 1994. During the first quarter of fiscal 1994, the Company adopted financial accounting standards on postretirement benefits (other than pensions), postemployment benefits and income taxes. The cumulative effect of these accounting changes resulted in a nonrecurring charge of $8.1 million, net of tax. Including the cumulative effect of accounting changes previously mentioned, net income for fiscal 1994 was $24.8 million, or $1.53 per share.

SEASONALITY

The Company's book clubs, book fairs and most of its magazines operate on a school-year basis, and the Company's business is, therefore, highly seasonal. As a consequence, the Company's revenues in the first quarter of the fiscal year are lower than its revenues in the following fiscal quarters, and the Company experiences a substantial loss from operations in that quarter. Typically, book club and book fair revenues are proportionately greatest in the second quarter of the fiscal year. See Supplementary Financial Information in Item 8.

In the months of June, July and August, the Company experiences negative cash flow due to the seasonality of the business. Historically, seasonal borrowings increase during June, July and August, and generally peak in September each year as a result of the Company's business cycle. Seasonal reductions in debt levels in fiscal 1996 were more than offset by increases in debt to fund (i) higher working capital levels resulting from revenue growth and changes in business mix and (ii) business acquisitions.

LIQUIDITY AND CAPITAL RESOURCES

The Company's cash and cash equivalents remained virtually unchanged for fiscal years 1996, 1995 and 1994. In each of these fiscal years, the net cash used in investing activities was funded from cash provided by financing and operating activities.

Net cash provided by operating activities in fiscal 1996, 1995 and 1994 was $50.6 million, $28.5 million and $37.6 million, respectively. In each of these fiscal years net cash provided by operating activities was derived from the net income of the Company adjusted for the addback of non-cash charges offset by the effect of increased working capital requirements resulting from both the Company's higher revenue base and a change in business mix toward receivable-based sales channels.

Cash outflows for investing activities were $154.4 million, $95.0 million and $93.7 million for fiscal 1996, 1995 and 1994, respectively. Investing activities primarily consist of prepublication and production cost expenditures, business and trademark acquisition-related payments and payments for capital expenditures and royalty advances. Prepublication cost expenditures in fiscal 1996 were $54.9 million, an increase of $9.6 million from $45.3 million in fiscal 1995. The majority of this increase relates to the Company's expansion of its instructional publishing activities through investing in the development of a literacy program, expansion of the Company's science program and investment in technology-related products. In fiscal 1997, the Company estimates that total prepublication cost expenditures will approximate $43.0 million. Business and trademark acquisition-related payments increased significantly in fiscal 1996. Acquisition related expenditures of $32.1 million are primarily due to the Company's acquisition of the assets of Trumpet Book Clubs, Inc., on January 23, 1996, the Company's acquisition of School Book Fairs Ltd., on March 6, 1996 and the April 29, 1996 acquisition of all of the outstanding stock of Weston Woods Studios, Inc. The Company's capital expenditures totalled $30.4 million in fiscal 1996, $21.7 million in fiscal 1995 and $41.5 million in fiscal 1994. The $8.7 million increase from fiscal 1995 to fiscal 1996 resulted primarily from the Company's continued expansion of warehouse facilities and leasehold improvements incurred as the Company continues to consolidate its corporate headquarters in New York City. The $19.8 million decrease from fiscal 1994 to fiscal 1995 was primarily due to the absence of construction costs incurred in fiscal 1994 to complete the new corporate

headquarters. The Company estimates that its capital expenditures will increase approximately $12.0 million to approximately $42.0 million in fiscal 1997, primarily due to the expansion of its corporate headquarters. Payments for royalty advances increased $5.5 million in fiscal 1996 as a result of the Company entering into more multi-book agreements and paying generally higher advances in order to remain competitive in the children's book club and trade publishing industry. The Company expects further increases in author advances as it extends its series publishing strategy combined with the renewal of existing series. Preproduction cost expenditures increased significantly from fiscal 1995. The $11.3 million increase resulted primarily from the Company's development of The Magic School Bus'r' and Goosebumps'r' television series.

Increases in investing activities were funded by cash flows from operations and through borrowings under the loan agreement, which the Company and Scholastic Inc., as joint and several borrowers, entered into on May 27, 1992, and which was last amended on May 1, 1996 (the 'Loan Agreement') and under the revolving loan agreement, which the Company and Scholastic Inc., entered into on June 19, 1995 with Sun Bank, National Association (the 'Revolver') and which was last amended on August 14, 1996 to increase the maximum borrowing availability by $15.0 million to $35.0 million. Both the Loan Agreement and the Revolver expire May 31, 2000. On August 18, 1995 the Company sold $110.0 million of the Debentures which bear interest at 5.0% and mature on August 15, 2005. The funds received in connection with the issuance of the Debentures have also been a primary source of the Company's liquidity. See Note 4 of the Notes to Consolidated Financial Statements for additional information on the Loan Agreement, the Revolver and the Debentures.

In fiscal 1996, 1995 and 1994, net cash provided by financing activities was $104.2 million, $66.2 million and $56.1 million, respectively. Financing activities consisted of borrowings and paydowns under the Loan Agreement and the Revolver, the sale of the Debentures and borrowings and paydowns on lines of credit, which resulted from overdraft agreements between the international subsidiaries and various banks.

In fiscal 1996, 1995 and 1994, options to purchase a total of 165,579, 185,180 and 119,700 shares of Common Stock were exercised at aggregated exercise prices of $2.1 million, $2.6 million and $1.0 million, respectively. The exercise of options in fiscal 1996, 1995 and 1994 reduced current taxes payable by $3.0 million, $10.0 million and $16.4 million, respectively.

The Company believes its existing cash position, combined with funds generated from operations and funds available under the Loan Agreement and the Revolver, will be sufficient to finance its on-going working capital requirements for the next fiscal year.

FORWARD LOOKING STATEMENTS

This 10-K includes certain forward looking statements. Such forward looking statements are subject to various risks and uncertainties. Actual results could differ materially from those currently anticipated due to a number of factors, including (i) the Company's ability to produce successful educational products (ii) the effect on the Company of volatility in the price of paper and periodic increases in postage rates, (iii) the Company's ability to manage seasonality, (iv) the Company's ability to maintain relationships with its creative talent, (v) significant changes in the publishing industry, especially relating to the distribution and sale of books, (vi) competition in the publishing industry from other educational publishers, and media and entertainment companies and (vii) the general risks attendant to the conduct of business in foreign countries.

ITEM 8. CONSOLIDATED FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS AND FINANCIAL STATEMENT SCHEDULE

The following consolidated financial statement schedule of Scholastic Corporation is included in Item 14(d):

All other schedules have been omitted since the required information is not present or is not present in amounts sufficient to require submission of the schedule, or because the information required is included in the Consolidated Financial Statements or the Notes thereto.

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CONSOLIDATED STATEMENT OF INCOME
Years ended May 31, 1996, 1995 and 1994
(Amounts in thousands except shares and per share data)

	1996	1995	1994
Revenues	$928,599	$749,891	$631,590
Operational costs and expenses:			
Cost of goods sold	466,030	355,968	297,069
Selling, general and administrative expenses	367,376	316,263	271,354
Other operating costs:			
Goodwill, Trademarks, and License amortization	3,085	2,108	1,774
Depreciation	9,969	7,902	5,829
Impairment of assets	24,304	--	--
Total operating costs and expenses	870,764	682,241	576,026
Operating income	57,835	67,650	55,564
Interest expense, net	11,170	5,395	2,856
Earnings before taxes and cumulative effect of accounting changes	46,665	62,255	52,708
Provision for income taxes	14,768	23,677	19,779
Earnings before cumulative effect of accounting changes	31,897	38,578	32,929
Cumulative effect of accounting changes	--	--	8,135
Net income	$ 31,897	$ 38,578	$ 24,794
Earnings per Class A Common and Class A Share and Common Share Equivalents (excluding cumulative effect of accounting changes):			
Primary	$ 1.97	$ 2.38	$ 2.04
Fully diluted	$ 1.97	$ 2.37	$ 2.04
Net income per Class A, Common and Class A Share and Common Share Equivalents:			
Primary	$ 1.97	$ 2.38	$ 1.53
Fully diluted	$ 1.97	$ 2.37	$ 1.53
Weighted average Class A, Common and Class A Share and Common Share Equivalents outstanding:			
Primary	16,195,856	16,242,521	16,154,719
Fully diluted	17,341,037	16,285,510	16,154,719

See accompanying notes

CONSOLIDATED BALANCE SHEET
Balances at May 31, 1996 and 1995 (Amounts in thousands except shares)

ASSETS

	1996	1995
CURRENT ASSETS:		
Cash and cash equivalents	$ 4,300	$ 3,708
Accounts receivable (less allowance for doubtful accounts of $11,290 in 1996 and $6,989 in 1995)	118,390	77,361
Inventories:		
Paper	9,041	10,281
Books and other	180,937	154,540
Deferred taxes	22,694	17,697
Prepaid and other deferred expenses	15,118	15,866
Total current assets	350,480	279,453
PROPERTY, PLANT AND EQUIPMENT:		
Land	6,310	5,873
Buildings	37,511	32,703
Furniture, fixtures and equipment	53,852	40,760
Leasehold improvements	48,482	37,052
	146,155	116,388
Less accumulated depreciation and amortization	32,018	23,151
Net property, plant and equipment	114,137	93,237
OTHER ASSETS AND DEFERRED CHARGES:		
Prepublication costs	105,016	81,817
Goodwill and trademarks	41,594	9,507
Royalty advances	24,758	16,829
Other	37,181	25,021
Total other assets and deferred charges	208,549	133,174
	$673,166	$505,864

See accompanying notes

LIABILITIES AND STOCKHOLDERS' EQUITY

	1996	1995
CURRENT LIABILITIES:		
Lines of credit	$ 20,933	$ 9,024
Current portion of long-term debt	271	455
Accounts payable	63,148	52,412
Accrued royalties	19,074	13,509
Deferred revenue	9,216	11,809
Other accrued expenses	60,756	55,469
Total current liabilities	173,398	142,678
NONCURRENT LIABILITIES:		
Long-term debt	186,810	91,518
Other noncurrent liabilities	24,311	21,455
Total noncurrent liabilities	211,121	112,973
COMMITMENTS		
STOCKHOLDERS' EQUITY:		
Preferred Stock, $1.00 par value Authorized -- 1,000,000 shares; Issued -- None	--	--
Class A Stock, $.01 par value Authorized-2,500,000 shares; Issued-828,100 shares	8	8
Common Stock, $.01 par value Authorized-25,000,000 shares Issued-16,331,698 shares (16,164,779 shares at 5/31/95)	163	162
Additional paid-in capital	194,785	189,563
Foreign currency translation adjustment	(140)	(1,454)
Accumulated earnings	130,643	98,746
Less 1,301,658 shares of Common Stock in treasury, at cost	(36,812)	(36,812)
Total stockholders' equity	288,647	250,213
	$673,166	$505,864

CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY
Years ended May 31, 1996, 1995 and 1994 (Amounts in thousands)

	CLASS A STOCK	COMMON STOCK	ADDITIONAL PAID-IN CAPITAL	FOREIGN CURRENCY TRANSLATION ADJUSTMENT	ACCUMULATED EARNINGS	TREASURY STOCK	TOTAL STOCKHOLDERS' EQUITY
BALANCE AT MAY 31, 1993	$ 8	$159	$156,660	$ (1,896)	$ 35,374	$(36,812)	$ 153,493
Net income					24,794		24,794
Translation adjustment				(163)			(163)
Stock options exercised		1	1,020				1,021
Tax benefit realized from stock option transactions			1,503				1,503
Tax benefit recognized upon adoption of SFAS 109			25,139				25,139
Stock granted			45				45
BALANCE AT MAY 31, 1994	8	160	184,367	(2,059)	60,168	(36,812)	205,832
Net income					38,578		38,578
Translation adjustment				605			605
Stock options exercised		2	2,593				2,595
Tax benefit realized from stock option transactions			2,558				2,558
Stock granted			45				45
BALANCE AT MAY 31, 1995	8	162	189,563	(1,454)	98,746	(36,812)	250,213
Net income					31,897		31,897
Translation adjustment				1,314			1,314
Stock options exercised		1	2,129				2,130
Tax benefit realized from stock option transactions			2,993				2,993
Stock granted			100				100
BALANCE AT MAY 31, 1996	$ 8	$163	$194,785	$ (140)	$ 130,643	$(36,812)	$ 288,647

See accompanying notes

CONSOLIDATED STATEMENT OF CASH FLOWS
Years ended May 31, 1996, 1995 and 1994 (Amounts in thousands)

	1996	1995	1994
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net income	$ 31,897	$ 38,578	$ 24,794
Adjustments to reconcile net income to net cash provided by operating activities:			
Amortization and depreciation	42,482	24,003	21,699
Impairment of assets	24,304	--	--
Royalty advances expensed	13,455	11,666	10,019
Provision for losses on accounts receivable	9,565	6,614	3,716
Deferred income taxes	(4,737)	2,643	(44)
Cumulative effect of accounting changes	--	--	8,135
Changes in assets and liabilities net of effects from business acquisitions and dispositions:			
Increase in accounts receivable	(49,164)	(27,467)	(22,385)
Increase in inventory	(31,641)	(42,767)	(17,549)
(Increase) decrease in prepaid expenses	1,470	(2,495)	(3,410)
Increase in accrued royalties	5,548	3,890	2,033
Increase in accounts payable and other accrued expenses	3,839	12,604	8,113
Increase (decrease) in deferred revenues	(2,678)	2,595	2,254
Other, net	6,265	(1,411)	180
Total adjustments	18,708	(10,125)	12,761
Net cash provided by operating activities	50,605	28,453	37,555
CASH FLOWS FROM INVESTING ACTIVITIES:			
Prepublication cost expenditures	(54,924)	(45,346)	(34,533)
Business and trademark acquisition-related payments	(32,059)	(7,760)	(3,804)
Additions to property, plant and equipment	(30,362)	(21,653)	(41,494)
Royalty advances paid	(20,141)	(14,592)	(12,368)
Production cost expenditures	(16,886)	(5,606)	(1,533)
Net cash used in investing activities	(154,372)	(94,957)	(93,732)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Borrowings under loan agreement and revolver	209,581	158,921	102,668
Principal paydowns on loan agreement and revolver	(224,220)	(106,615)	(66,068)
Proceeds from issuance of convertible debt	107,250	--	--
Borrowings under lines of credit	53,930	45,250	41,070
Principal paydowns on lines of credit	(46,728)	(43,661)	(38,474)
Tax benefit realized from stock option transactions	2,993	9,989	16,369
Proceeds from exercise of stock options	2,130	2,595	1,021
Payments of deferred financing costs	(692)	(312)	(439)
Net cash provided by financing activities	104,244	66,167	56,147
Effect of exchange rate changes on cash	115	(57)	47
Net increase (decrease) in cash and cash equivalents	592	(394)	17
Cash and cash equivalents at beginning of year	3,708	4,102	4,085
Cash and cash equivalents at end of year	$ 4,300	$ 3,708	$ 4,102
SUPPLEMENTAL INFORMATION:			
Income taxes paid	$ 22,251	$ 12,223	$ 3,478
Interest paid	9,775	4,952	2,404

See accompanying notes

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

PRINCIPLES OF CONSOLIDATION

The consolidated financial statements include the accounts of Scholastic Corporation and all wholly-owned subsidiaries (the 'Company'). All intercompany transactions are eliminated. Certain prior year amounts have been reclassified to conform to the current year presentation.

USE OF ESTIMATES

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. Actual results could differ from those estimates and assumptions.

NATURE OF OPERATIONS

The Company has operations in the United States, Canada, Mexico, the United Kingdom, France, Australia and New Zealand and the Company distributes its materials through book clubs, book fairs and retail. The Company is engaged in one segment of business -- the production, publication and sale of educational materials.

CASH EQUIVALENTS

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

INVENTORIES

Inventories are stated at the lower of cost (first-in, first-out method) or market.

PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment are carried at cost. Depreciation and amortization are provided on the straight-line basis. Buildings have an estimated useful life, for purposes of depreciation, of forty years. 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.

OTHER ASSETS AND DEFERRED CHARGES

Prepublication costs are amortized on the straight-line basis over a two to five year period commencing with publication. The Company regularly evaluates the remaining lives and recoverability of such costs. The accumulated amortization of prepublication costs at May 31, 1996 and 1995 was $24.9 million and $18.8 million, respectively.

Royalty advances are expensed as earned or when future recovery appears doubtful. The reserve for royalty advances was $18.4 million and $16.6 million at May 31, 1996 and 1995, respectively.

Goodwill and trademarks acquired by the Company are being amortized on the straight-line basis over the estimated future periods to be benefited, not exceeding 40 years. The accumulated amortization of goodwill and other intangible assets at May 31, 1996 and 1995 was $4.5 million and $3.1 million, respectively.

INCOME TAX

The Company adopted Statement of Financial Accounting Standards No. 109 (SFAS 109), 'Accounting for Income Taxes'. Under SFAS 109, deferred income tax assets and liabilities are recognized for the expected future tax effects attributable to temporary differences between the financial reporting and tax bases of the Company's assets and liabilities, based on enacted tax rates and other provisions of tax law.

OTHER ACCRUED EXPENSES

Other accrued expenses include a reserve for unredeemed credits issued in conjunction with the Company's book club operations of $8.9 million and $10.3 million and accrued taxes of $9.0 million and $9.3 million, at May 31, 1996 and 1995, respectively.

DEFERRED REVENUE

Revenues from magazine subscriptions are deferred at the time of sale. As magazines are delivered to subscribers, proportionate shares of the receipts are credited to revenue.

EARNINGS PER SHARE

Earnings per share are based on the combined weighted average number of Class A, Common, and Class A Share and Common Share Equivalents outstanding using the treasury stock method.

NEW ACCOUNTING PRINCIPLES

Effective June 1, 1993, the Company adopted Statement of Financial Accounting Standards No. 106 (SFAS 106), 'Employers' Accounting for Postretirement Benefits Other Than Pensions' (See Note 8); Statement of Financial Accounting Standards No. 112 (SFAS 112), 'Employers' Accounting for Postemployment Benefits' (See Note 8); and Statement of Financial Accounting Standards No. 109 (SFAS 109), 'Accounting for Income Taxes' (See Note 7). The cumulative effect of these accounting changes resulted in a nonrecurring charge of $8.1 million, net of tax, or $0.51 per share. Excluding the cumulative effect, adoption of these statements did not have a significant effect on net income in fiscal 1994.

Effective March 1, 1996, the Company early adopted Statement of Financial Accounting Standards No. 121 (SFAS 121), 'Accounting for the Impairment of Long-lived Assets to be Disposed of'. This statement requires that long-lived assets and certain identifiable intangibles to be held and used by an entity be reviewed for impairment whenever events or changes in circumstances indicate that the carrying value of an asset may not be recoverable. It also requires that long-lived and certain identifiable intangibles to be disposed of be reported at the lower of carrying amount or fair market value less cost to sell.

Statement of Financial Accounting Standards No. 123 (SFAS 123), 'Accounting for Stock-Based Compensation', was issued in October 1995. SFAS 123 permits entities to record expense for employee stock compensation plans based on fair value at date of grant or to utilize the intrinsic value method. The Company plans to continue to measure compensation cost using the intrinsic value method, in accordance with APB Opinion No. 25, 'Accounting for Stock Issued to Employees'.

2. IMPAIRMENT OF ASSETS

Fiscal 1996 includes a non-cash charge relating to the impairment of certain assets of $24.3 million pre-tax, $14.9 million after-tax, or $0.88 per fully diluted share. A significant portion of this charge was determined in connection with the Company's early adoption of SFAS No. 121. This charge consists of unamortized prepublication ($10.8 million) and inventory costs ($13.5 million) of the Company's K-2 math program, several older supplemental instructional publishing programs and other selected titles.

3. INTERNATIONAL AND DOMESTIC OPERATIONS

International operations consist of the Company's book publishing and distribution operations in Canada, Australia, the United Kingdom, New Zealand, France and Mexico. As of May 31, 1996, 1995 and 1994, equity in the wholly-owned subsidiaries in these countries was $40.8 million, $36.2 million and $37.2 million, respectively.

The following table summarizes certain information for the fiscal years ended May 31, 1996, 1995 and 1994 regarding the Company's domestic and international operations (in millions).

	DOMESTIC OPERATIONS	INTERNATIONAL OPERATIONS	CONSOLIDATED
1996			
Revenues	$778.9	$ 149.7	$928.6
Operating income	48.8(1)	9.0	57.8(1)
Identifiable assets	565.9	107.3	673.2
1995			
Revenues	$620.3	$ 129.6	$749.9
Operating income	63.6	4.1	67.7
Identifiable assets	423.6	82.3	505.9
1994			
Revenues	$519.3	$ 112.3	$631.6
Operating income	51.7	3.9	55.6
Identifiable assets	317.7	72.3	390.0

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(1) Includes a non-cash charge relating to the impairment of certain assets of $24.3.

4. LONG-TERM DEBT

Long-term debt consisted of the following at May 31, 1996 and 1995 (in millions):

	1996	1995
Loan Agreement and Revolver	$ 74.0	$ 88.5
Debentures	110.0	--
Other debt	3.1	3.5
Total debt	187.1	92.0
Less current portion	(.3)	(.5)
Total long-term debt	$186.8	$ 91.5

A. LOAN AGREEMENT

The Company and Scholastic Inc. are joint and several borrowers under a Loan Agreement (the 'Loan Agreement') with certain banks which provides for revolving credit loans and letters of credit. On April 11, 1995, the Company amended and restated the Loan Agreement, expanding the facility to $135.0 million, with a right, in certain circumstances, to increase to $160.0 million, and extending the due date to May 31, 2000. On May 1, 1996 the Loan Agreement was further amended. Interest charged under this facility is either at the prime rate or .325% to .90% over LIBOR (as defined). There is a commitment fee charged which ranges from .10% to .3625% on the unused portion. The amounts charged vary based upon certain financial measurements. The Loan Agreement contains covenants related to debt and interest coverage ratios (as these terms are defined) and limits dividends and other distributions.

B. REVOLVER

On June 19, 1995, Scholastic Corporation and Scholastic Inc., entered into a Revolving Loan Agreement (the 'Revolver') with Sun Bank, National Association, which provides for revolving credit

loans in an aggregate principal amount of up to $20.0 million. The Revolver has covenants related to debt and interest coverage ratios (as these terms are defined), limits dividends and other distributions and expires on May 31, 2000.

C. DEBENTURES

On August 18, 1995, the Company sold $110.0 million of 5.0% Convertible Subordinated Debentures due August 15, 2005 (the 'Debentures') under Regulation S and Rule 144A of the Securities Act of 1933. The Debentures are listed on the Luxembourg Stock Exchange and the portion sold under Rule 144A are designated for trading in the Portal system of the National Association of Securities Dealers, Inc.

Interest on the Debentures is payable semi-annually on August 15 and February 15 of each year. The Debentures are redeemable at the option of the Company, in whole, but not in part, at any time on or after August 15, 1998 at 100% of the principal amount plus accrued interest. Each debenture is convertible, at the holder's option any time prior to maturity, into Common Stock of the Company at a conversion price of $76.86 per share.

The net proceeds from the sale of the Debentures were $107.3 million after deduction of underwriting fees and offering expenses.

D. OTHER LINES OF CREDIT

The Company's international subsidiaries have lines of credit amounting to $30.1 million at May 31, 1996. There was $20.9 million and $9.0 million outstanding under these credit lines at May 31, 1996 and 1995, respectively. The weighted average interest rate on the outstanding amounts was 7.5% and 7.6% at May 31, 1996 and 1995, respectively.

5. COMMITMENTS

The Company leases warehouse space, office space, and equipment under various operating leases. Certain of these leases provide for rent increases based on price-level factors. In most cases management expects that, in the normal course of business, leases will be renewed or replaced by other leases. The Company has no significant capitalized leases. Total rent expense relating to the Company's operating leases was $20.5 million, $16.9 million and $14.2 million net of sublease income for the fiscal years ended May 31, 1996, 1995 and 1994, respectively. These rentals include payments under the terms of the escalation provisions.

The aggregate minimum future annual rental commitments at May 31, 1996, under all noncancelable operating leases totaling $119.1 million are as follows (in millions): 1997 - $19.4; 1998 - $16.6; 1999 - $13.0; 2000 - $10.3; 2001 - $8.5; later years - $51.3.

6. CAPITAL STOCK AND STOCK OPTIONS

The voting rights of the holders of Common Stock, except as provided by statute, and except as may be established by the Board of Directors in favor of any series of Preferred Stock which may be issued, are limited to the election of such number of directors as shall equal at least one-fifth of the members of the Board of Directors; the remaining directors are elected by the holders of Class A Stock. Holders of Class A Stock and Common Stock are entitled to one vote per share on matters on which they are entitled to vote. The holders of Class A Stock have the right, at their option, to convert shares of Class A Stock into shares of Common Stock on a share-for-share basis.

At May 31, 1996, there were 161,500 options available for grant under the Company's 1992 Stock Option Plan (the 'Stock Option Plan'), which provides for the grant of incentive stock options ('ISO's') and nonqualified stock options. No ISO's have been granted under the Stock Option Plan.

On September 22, 1995, the Company adopted the 1995 Stock Option Plan. An aggregate of two million shares of Common Stock have been reserved for issuance upon the exercise of options granted under this plan. For the year ended May 31, 1996, no options were granted under the plan.

On May 19, 1992, the Company adopted the Outside Directors' Stock Option Plan (the 'Outside Directors' Plan'). At May 31, 1996, there were 3,000 options available for grant under the Outside Directors' Plan.

Generally, options granted under the various plans may not be exercised for one year after grant and expire ten years and one day after grant.

Activity under the various stock option plans for the fiscal years ended May 31, 1996, 1995 and 1994 was as follows:

	1996		1995		1994	
	OPTION SHARES	OPTION PRICE RANGE	OPTION SHARES	OPTION PRICE RANGE	OPTION SHARES	OPTION PRICE RANGE
Outstanding -- beginning of year	953,729	$ 1.14-47.88	1,067,159	$ 1.09-47.88	944,859	$ 1.09-35.25
Granted	288,750	57.56-64.63	82,500	39.68-46.69	242,000	34.50-47.88
Exercised	(165,579)	1.26-34.50	(185,180)	1.09-35.25	(119,700)	1.18-31.25
Cancelled	(1,500)	34.50	(10,750)	34.50	--	
Outstanding -- end of year	1,075,400	1.14-64.63	953,729	1.14-47.88	1,067,159	1.09-47.88
Exercisable -- end of year	643,250	1.14-47.88	737,479	1.14-47.88	774,159	1.09-35.25

On December 14, 1993, the Company adopted the Non-Employee Director Stock-For-Retainer Plan (the 'Stock-For-Retainer Plan'). During the years ended May 31, 1996, 1995 and 1994, the Company issued 1,340, 891 and 1,044 shares of Common Stock at per share prices of $74.88, $50.63 and $43.13, respectively, pursuant to the Stock-For-Retainer Plan.

7. INCOME TAX EXPENSE

Consolidated income tax expense for the fiscal years ended May 31, 1996, 1995 and 1994 was based on earnings before taxes and cumulative effect of accounting changes as follows (in millions):

	1996	1995	1994
Domestic	$40.7	$ 61.3	$ 50.6
International wholly owned subsidiaries	6.0	1.0	2.1
	$46.7	$ 62.3	$ 52.7

Income tax expense (benefit) for the fiscal years ended May 31, 1996, 1995 and 1994 consists of the following components (in millions):

	1996	1995	1994
Federal			
Current(1)	$15.1	$ 18.9	$ 17.6
Deferred	(5.3)	2.8	(2.2)
	$ 9.8	$ 21.7	$ 15.4
State and local			
Current	$ 1.7	$ 1.7	$ 1.1
Deferred	(.1)	(.1)	2.1
	$ 1.6	$ 1.6	$ 3.2
International			
Current	$ 2.7	$ .4	$ 1.1
Deferred	.7	--	.1
	$ 3.4	$ .4	$ 1.2
Total			
Current	$19.5	$ 21.0	$ 19.8
Deferred	(4.7)	2.7	--
	$14.8	$ 23.7	$ 19.8

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(1) For the fiscal years ended May 31, 1996, 1995 and 1994 federal current taxes payable are $12.2, $9.1, and $1.2, respectively. The difference between the current taxes payable and the current federal income tax expense for each year is due to the tax benefit associated with stock option exercises which have been reflected as an increase to additional paid-in capital.

Total tax expense for the fiscal years ended May 31, 1996, 1995 and 1994 results in effective tax rates of 31.6%, 38.0% and 37.5%, respectively. The provisions for income taxes attributable to continuing operations differ from the amount of tax determined by applying the federal statutory rate as follows (in millions):

	1996	1995	1994
Computed federal statutory provision	$16.3	$ 21.8	$ 18.4
State income tax provision net of federal income tax benefit	1.0	1.0	2.1
Effect of enacted federal tax rate change on net deferred tax assets	--	--	(1.3)
Difference in effective tax rates on earnings of foreign subsidiaries	(.8)	.1	.5
Charitable contributions	(2.0)	(.3)	--
Other -- net	.3	1.1	.1
Total provision for income taxes	$14.8	$ 23.7	$ 19.8

Effective June 1, 1993, the Company changed its method of accounting for income taxes from the deferred method to the liability method required by SFAS 109.

The undistributed earnings of foreign subsidiaries at May 31, 1996 are $31.7 million. It is the Company's intention to reinvest all remaining unremitted earnings of its subsidiaries where permitted by foreign jurisdictions. Determination of the amount of unrecognized deferred U.S. income tax liability is not practicable. The tax on any distribution of such earnings would be reduced by foreign tax credits.

Deferred income taxes reflect tax carryforwards and the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting and the amounts used for

income tax purposes as determined under enacted tax laws and rates. The tax effects of these items that give rise to deferred tax assets and liabilities at May 31, 1996 and 1995 are as follows (in millions):

	1996	1995
Deferred tax assets:		
Accounting reserves	$ 9.3	$ 8.1
Inventory accounting	9.0	3.3
Postretirement, postemployment and pension obligations	5.1	5.2
Theatrical motion picture accounting	2.8	2.8
Other -- net	--	.8
Total deferred tax assets	26.2	20.2
Valuation allowance for deferred tax assets	--	(.7)
Deferred tax assets after valuation allowance	26.2	19.5
Deferred tax liabilities:		
Depreciation	2.7	2.4
Other -- net	1.4	--
Total deferred tax liabilities	4.1	2.4
Net deferred tax assets	$22.1	$ 17.1

8. EMPLOYEE BENEFIT PLANS

The Company has a defined benefit pension plan (the 'Plan') which covers a majority of all U.S. employees who meet certain eligibility requirements. Benefits are based on years of service and on career average compensation. The Plan is funded by contributions from members and the Company. It is the Company's policy to fund the minimum amount required by the Employee Retirement Income Security Act of 1974, as amended. In accordance with the provisions of Statement of Financial Accounting Standards No. 87, (SFAS 87) 'Employers' Accounting for Pensions,' the Company recorded an additional minimum pension liability of $0.5 million at May 31, 1995. This liability is offset by an intangible asset of an equal amount.

The international subsidiaries in Australia and the United Kingdom have defined benefit pension plans which cover those employees meeting minimum length of service requirements. Benefits are based on years of service and on a percentage of compensation near retirement. The plans are funded by contributions from these subsidiaries and their employees. In fiscal year ended May 31, 1995, the majority of the employees of the Australian subsidiary terminated participation in the defined benefit pension plan and began participating in a defined contribution plan. For fiscal years ended May 31, 1996 and 1995, the total expenses for these plans were $0.5 million and $0.4 million, respectively. Canada's pension plan was terminated on September 30, 1993. Contributions made to the pension plan were rolled over to a private plan to which employees now have an option to contribute.

Total defined benefit pension plan costs for the fiscal years ended May 31, 1996, 1995 and 1994 are summarized as follows (in millions):

	1996	1995	1994
Service cost	$ 1.4	$ 1.1	$ 1.6
Interest cost	1.2	1.1	1.1
Actual return on plan assets	(2.2)	(1.5)	(.6)
Net amortization (deferral)	1.2	.8	(.2)
Total pension cost	$ 1.6	$ 1.5	$ 1.9

The funded status of the pension plans at May 31, 1996 and 1995, is as follows (in millions):

	1996 ACCUMULATED BENEFITS EXCEED PLAN ASSETS	1995 ACCUMULATED BENEFITS EXCEED PLAN ASSETS	1996 PLAN ASSETS EXCEED ACCUMULATED BENEFITS	1995 PLAN ASSETS EXCEED ACCUMULATED BENEFITS
Actuarial present value of benefit obligations:				
Vested benefits	$ 13.1	$ 11.3	$ 1.8	$ 1.6
Non-vested benefits	.7	.6	--	--
Accumulated benefit obligation	13.8	11.9	1.8	1.6
Effect of projected future salary increases	1.8	1.4	.3	.3
Projected benefit obligation	15.6	13.3	2.1	1.9
Plan assets at fair value	13.5	11.2	2.3	2.1
Plan assets less than (greater than) projected benefit obligation	2.1	2.1	(.2)	(.2)
Unrecognized net gain	1.4	.6	.2	.1
Unrecognized net transition asset (obligation)	(1.3)	(1.4)	.1	.2
Unrecognized prior service cost	(1.0)	(1.1)	(.1)	(.1)
Additional liability resulting from minimum liability provisions	--	.5	--	--
Accrued pension cost included in financial statements	$ 1.2	$ .7	$ --	$ --
Assumed rates:				
Discount rate	8.0%	8.0%	9.0%	9.0%
Compensation increase factor	5.0	5.0	7.0	7.0
Return on assets	9.5	9.5	9.0	9.0

Plan assets consist primarily of stocks, bonds, money market funds, insurance contracts, and U.S. government obligations.

In addition to providing pension benefits, the Company provides certain health care and life insurance benefits for retired employees. Substantially all of the Company's domestic employees may become eligible for these benefits if they reach normal retirement age while working for the Company.

Effective June 1, 1993, the Company adopted SFAS 106 which requires that the expected cost of providing these postretirement benefits be accrued during the years employees render the necessary service. The Company recognized the transition obligation at the date of adoption immediately as the effect of a change in accounting principle. The transition obligation, a one-time noncash charge, was approximately $10.3 million (pretax) with a related tax benefit of approximately $3.8 million. Prior to adopting SFAS 106, the cost of retiree health care and life insurance benefits was recognized as expense as claims were paid.

The components of the net periodic postretirement benefit costs for the fiscal years ended May 31, 1996, 1995 and 1994 are as follows (in millions):

	1996	1995	1994
Service cost	$ .5	$ .4	$ .4
Interest cost on accumulated benefit obligation	.8	.9	.9
Net periodic postretirement benefit cost	$ 1.3	$ 1.3	$ 1.3

The components of the accumulated postretirement benefit obligation included in other noncurrent liabilities at May 31, 1996 and 1995 are as follows (in millions):

	1996	1995
Retirees	$ 6.7	$ 6.9
Fully eligible active plan participants	2.0	2.0
Other active plan participants	2.8	2.8
Accumulated postretirement benefit obligation	11.5	11.7
Unrecognized net actuarial gain	1.2	.2
Accrued postretirement benefit obligation	$12.7	$ 11.9

The accumulated postretirement benefit obligation was determined using a discount rate of 8.0%. Service cost and interest components were determined using a discount rate of 8.0%. The health care cost trend rate assumed was 12% with an annual decline of 1% until the rate reaches 5% in the year 2002. An increase of 1% in the health care cost trend rate would result in increases of approximately $1.4 million in the accumulated benefit obligation and $0.2 million in the annual net periodic postretirement benefit cost.

Effective June 1, 1993, the Company adopted SFAS 112 which requires an accrual method of recognizing certain postemployment benefits such as severance. The Company recognized the transition obligation, a one-time noncash charge, as the cumulative effect of a change in accounting principle in the amount of $2.3 million (pretax) with a related tax benefit of $0.8 million.

The Scholastic Inc. 401(k) Savings and Retirement Plan (the '401(k)') allows participating employees to authorize payroll deductions up to 15%, except for highly compensated employees who are limited to 10%, of their income on a pretax basis and/or an after-tax basis. The payroll deductions are invested at the direction of the participant in certain investment funds or in the Company's Common Stock. For the 401(k) plan years ending May 31, 1996, 1995 and 1994, the Company matched the employees' pretax payroll deductions (up to 6% of compensation) by one dollar for each dollar of the first one hundred dollars contributed and fifty cents for each dollar above one hundred dollars. Such matching was made in cash. The terms of the 401(k) provide that the Company's Board of Directors shall determine the Company's matching contributions annually. The Company, at its sole discretion, may also make discretionary contributions for the benefit of all participants regardless of whether they elected to make pretax contributions to the 401(k). For the fiscal years ended May 31, 1996, 1995 and 1994, the Company's 401(k) matching contributions were $2.0 million, $1.9 million and $1.5 million, respectively.

REPORT OF INDEPENDENT AUDITORS

THE BOARD OF DIRECTORS AND STOCKHOLDERS
SCHOLASTIC CORPORATION

We have audited the accompanying consolidated balance sheet of Scholastic Corporation (the 'Company') as of May 31, 1996, and 1995, and the related consolidated statements of income, changes in stockholders' equity, and cash flows for each of the three years in the period ended May 31, 1996. Our audits also included the financial statement schedule listed in the Index at Item 14(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 generally accepted auditing standards. 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 addressing 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 consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of the Company at May 31, 1996 and 1995 and the consolidated results of its operations, and its cash flows for each of the three years in the period ended May 31, 1996 in conformity with generally accepted accounting principles. Also, in our opinion, the related financial statement 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 described in Note (1) to the financial statements, the Company changed its methods of accounting for postretirement benefits other than pensions, postemployment benefits and income taxes in the year ended May 31, 1994.

/s/ Ernst & Young LLP
Ernst & Young LLP

New York, New York
July 3, 1996

SUPPLEMENTARY FINANCIAL INFORMATION
Summary of Quarterly Results of Operations for the fiscal years ended May 31, 1996 and 1995
(Unaudited, amounts in thousands except per share data)

	1996				
	FIRST QUARTER	SECOND QUARTER	THIRD QUARTER	FOURTH QUARTER(1)	YEAR(1)
Revenues	$135,191	$294,610	$216,085	$ 282,713	$928,599
Cost of goods sold	78,816	134,620	108,150	144,444	466,030
Net income (loss)	(9,792)	31,122	8,889	1,678	31,897
Net income (loss) per share:					
Primary	(.62)	1.92	.55	.10	1.97
Fully diluted	(.62)	1.81	.55	.10	1.97

	1995				
	FIRST QUARTER	SECOND QUARTER	THIRD QUARTER	FOURTH QUARTER	YEAR
Revenues	$ 87,065	$254,063	$179,930	$ 228,833	$749,891
Cost of goods sold	51,569	112,000	85,230	107,169	355,968
Net income (loss)	(11,169)	27,320	7,974	14,453	38,578
Net income (loss) per share:					
Primary	(.72)	1.68	.49	.89	2.38
Fully diluted	(.72)	1.68	.49	.89	2.37

- - ------------

(1) The fourth quarter of fiscal 1996 includes a non-cash charge relating to the impairment of certain assets of $24.3 million pre-tax and $14.9 million after-tax. A significant portion of this charge was determined in connection with the Company's early adoption of SFAS 121, which requires an evaluation of the realization of long-lived asset carrying values. This charge consists of the unamortized prepublication ($10.8 million) and inventory ($13.5 million) costs of the Company's K-2 math program, several older supplemental instructional publishing programs and other selected titles. The fully diluted earnings per share impact for the year was $0.88.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

Information regarding directors is incorporated herein by reference from the Company's definitive proxy statement to be filed pursuant to regulation 14A under the Securities Exchange Act of 1934.

Executive Officers (as of August 1, 1996)

NAME	AGE	POSITION
Richard Robinson........	59	Chairman of the Board, President and Chief Executive Officer
Barbara A. Marcus.......	45	Executive Vice President, Children's Book Publishing
Margery W. Mayer........	44	Executive Vice President, Instructional Publishing
Kevin J. McEnery........	48	Executive Vice President and Chief Financial Officer
Ruth Otte...............	47	Executive Vice President, Media
Richard M. Spaulding....	59	Director, Executive Vice President
Charles B. Deull........	36	Senior Vice President, Legal and Business Affairs
Jean L. Feiwel..........	43	Senior Vice President, Associate Publisher -- Children's Book Publishing
Ernest B. Fleishman.....	59	Senior Vice President, Education and Corporate Relations
Deborah A. Forte........	42	Senior Vice President, Division Head, Scholastic Productions
Frank Grohowski.........	55	Senior Vice President, Operations
Hugh Roome..............	44	Senior Vice President, Magazine Group
David J. Walsh..........	60	Senior Vice President, International Operations
Lynette E. Allison......	39	Vice President, General Counsel and Secretary
Helen V. Benham.........	46	Director, Corporate Vice President, Early Childhood Advisor
Claudia H. Cohl.........	56	Vice President, Professional Publishing
Larry V. Holland........	37	Vice President, Human Resources
Raymond Marchuk.........	45	Vice President, Finance & Investor Relations
David D. Yun............	48	President, Scholastic Book Fairs, Inc.
Leslie G. Lista.........	37	Corporate Controller
Vincent M. Marzano......	33	Treasurer

Richard Robinson has held his position with the Company or Scholastic Inc., for more than five years and has been a Director of Scholastic Inc. since 1971.

Barbara A. Marcus became Executive Vice President -- Children's Book Publishing in October 1991. Ms. Marcus joined Scholastic Inc. in July 1983 as Vice President of Marketing and in October 1984, Ms. Marcus was also appointed to the position of Associate Publisher.

Margery W. Mayer joined Scholastic Inc. in April 1990 as Executive Vice President -- Instructional Publishing. From 1987 until 1990, she was associated with the Ginn Division of Silver Burdett & Ginn Inc., as General Manager until August 1988 and as President, thereafter.

Kevin J. McEnery became Executive Vice President and Chief Financial Officer in August 1995. Mr. McEnery joined the Company in September 1993 as Vice President of Strategic Planning and Operations of the Magazine and Technology groups. From April 1992 through September 1993 he was associated with the ITC Group, a telecommunications consulting group based in Westport, Connecticut as a Senior Consultant. Prior to that he was a Senior Vice President and Chief Financial Officer of a privately held consumer and medical products company.

Ruth Otte became Executive Vice President of Media in 1996. From 1986 to 1994 she served as President and Chief Operating Officer of Discovery Networks and from 1994 until September 1995, she was President of Knowledge Adventure.

Richard M. Spaulding has held his position with the Company or Scholastic Inc. for more than five years and has been a Director of Scholastic Inc. since 1974.

Charles B. Deull joined the Company in January 1995 as Senior Vice President -- Legal and Business Affairs. Mr. Deull was associated with the law firm of Cleary, Gottlieb, Steen and Hamilton from 1986 until joining Scholastic.

Jean L. Feiwel was appointed Senior Vice President -- Associate Publisher of Childrens Book Publishing in December 1993. Ms. Feiwel joined Scholastic Inc. in July 1983 and has served as Vice President -- Editor-in-Chief of Book Group since 1990.

Ernest B. Fleishman joined Scholastic Inc. in June 1989 as Senior Vice President -- Education and Corporate Relations. Mr. Fleishman was the Superintendent for the Greenwich, Connecticut Public School System from 1976 until joining Scholastic Inc.

Deborah A. Forte was appointed Senior Vice President: Division Head -- Scholastic Productions in January 1995. Ms. Forte has been with Scholastic since 1984 serving as a Vice President of Scholastic Productions, Inc. until 1994 when Ms. Forte was appointed Executive Vice President, Scholastic Productions, Inc.

Frank Grohowski was appointed Senior Vice President -- Operations of the Company in August 1995. Mr. Grohowski was Vice President of Manufacturing for Scholastic Inc. since 1985.

Hugh Roome joined the Company in September 1991 as Vice President -- Home Office Computing and in May 1993, he was appointed to the position of Senior Vice President -- Magazine Group. He was Vice President of MCI from 1989 until joining the Company. From 1979 to 1989, Mr. Roome was the Director of Marketing and Associate Publisher at Newsweek, Inc.

David J. Walsh was elected Senior Vice President in charge of International Operations for Scholastic Inc. in November 1983.

Lynette E. Allison has held her current position as Vice President, General Counsel and Secretary with the Company since May 1988.

Helen V. Benham joined Scholastic Inc. in 1974. In 1996, she was named Corporate Vice President, Early Childhood Advisor. In June 1990 she was named Vice President and Publisher of the Early Childhood Division. She became a director of the Company in September 1992.

Claudia H. Cohl has been associated with Scholastic Inc. since 1975 and has been a Vice President of Scholastic Inc. for more than five years. She is currently Vice President -- Professional Publishing. She has served in many capacities, including Editor-in-Chief of Home Office Computing'r'.

Larry V. Holland joined the Company in August 1994 as Vice President -- Human Resources. Prior to joining the Company, Mr. Holland held various positions with MCI since 1990 and left MCI as Senior Director of Human Resources.

Raymond Marchuk has been associated with Scholastic Inc. since November 1983 and has been Vice President for more than five years. He is currently Vice President-Finance and Investor Relations.

David D. Yun became President of Scholastic Book Fairs, Inc. ('SBF, Inc.') in January 1992. Mr. Yun joined the Company in June 1988 as Vice President of Marketing for SBF, Inc. In July 1990, he was also appointed to the position of Executive Vice President of SBF, Inc.

Leslie G. Lista has been associated with Scholastic Inc. since April 1984 and has served in many capacities. She became Corporate Controller in April 1987.

Vincent M. Marzano has been associated with Scholastic Inc. since August 1987. He became Treasurer of the Company in December 1993. Previously, he served the Company in many capacities, including Manager of Planning and Analysis.

Helen V. Benham is the wife of Richard Robinson. There are no other family relationships among any of the executive officers of the Company.

ITEM 11. EXECUTIVE COMPENSATION

Incorporated herein by reference from the Company's definitive proxy statement to be filed pursuant to Regulation 14A under the Securities Exchange Act of 1934.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

Incorporated herein by reference from the Company's definitive proxy statement to be filed pursuant to Regulation 14A under the Securities Exchange Act of 1934.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

Incorporated herein by reference from the Company's definitive proxy statement to be filed pursuant to Regulation 14A under the Securities Exchange Act of 1934.

PART IV

ITEM 14. EXHIBITS, FINANCIAL STATEMENT SCHEDULES AND REPORTS ON FORM 8-K

(a) 1. Financial Statements

The following consolidated financial statements are included in Item 8:

-- Consolidated Statement of Income for the years ended May 31, 1996, 1995 and 1994.

-- Consolidated Balance Sheet at May 31, 1996 and 1995.

-- Consolidated Statement of Changes in Stockholders' Equity for the years ended May 31, 1996, 1995 and 1994.

-- Consolidated Statement of Cash Flows for the years ended May 31, 1996, 1995 and 1994.

-- Notes to Consolidated Financial Statements.

(a) 2. Financial Statement Schedule

The following consolidated financial statement schedule is included in Item 14(d):

-- Schedule II -- Valuation and Qualifying Accounts and Reserves.

All other schedules have been omitted since the required information is not present or is not present in amounts sufficient to require submission of the schedule, or because the information required is included in the Consolidated Financial Statements or the Notes thereto.

(a) 3. Exhibits:

EXHIBIT NUMBER	
3(a)	-- Amended and Restated Certificate of Incorporation of the Registrant.(1)
(b)	-- By-Laws of the Registrant.(2)
4(a)	-- Amended and Restated Loan Agreement dated April 11, 1995 between the Registrant and Citibank, N.A., as agent, Marine Midland Bank, Chase Manhattan Bank, N.A.,The First National Bank of Boston and United Jersey Bank.(9)
(b)	-- Amendment to the Amended and Restated Loan Agreement dated May 1, 1996.
(c)	-- Revolving Loan Agreement dated June 19, 1995 between the Registrant and Sun Bank, National Association.(4)
(d)	-- Amendment to the Revolving Loan Agreement dated August 14, 1996.(4)
(e)	-- Overdraft Facility dated June 1, 1992, as amended on October 30, 1995 between Scholastic Canada Ltd. and CIBC.(4)
(f)	-- Overdraft Facility dated June 24, 1993 between Scholastic Ltd. (formerly known as Scholastic Publications Ltd.) and Citibank, N.A.(4)
(g)	-- Overdraft Facility dated May 14, 1992 as amended on June 30, 1995, between Scholastic Ltd. (formerly known as Scholastic Publications Ltd.) and Midland Bank.(4)
(h)	-- Overdraft Facility dated February 12, 1993, as amended on January 31, 1995 between Scholastic Australia Pty. Ltd. (formerly known as Ashton Scholastic Pty. Ltd.) and National Australia Bank Ltd.(4)
(i)	-- Indenture dated August 15, 1995 relating to $110.0 million of 5% Convertible Subordinated Debentures due August 15, 2005 issued by the Registrant.(10)
10	Material Contracts:
(a)	-- Scholastic Inc. 401(k) Savings and Retirement Plan, as amended and restated as of June 1, 1992.(10)
(b)	-- Amended and Restated Retirement Income Plan for Employees of Scholastic Inc. effective as of July 1, 1989.(10)
(c)	-- 1992 Stock Option Plan.(6)
(d)	-- 1995 Stock Option Plan.(11)
(e)	-- Non-qualified Stock Option Agreement dated July 16, 1987 between the Registrant and Joseph W. Oliver.(3)
(f)	-- Lease dated as of January 28, 1992 between Ise Hiyoko, Inc. and Scholastic Inc.(5)

EXHIBIT
NUMBER

- (g) -- Amendment agreement dated as of April 1, 1993 between Ise Hiyoko, Inc. and Scholastic Inc.(8)
- (h) -- Outside Directors' Stock Option Plan.(6)
- (i) -- Non-Employee Director Stock-For-Retainer Plan.(7)
- (j) -- Industrial Development Agency of the City of New York documents:
  - (1) Lease agreement dated December 1, 1993.(8)
  - (2) Indenture of Trust agreement dated December 1, 1993.(8)
  - (3) Project agreement dated December 1, 1993.(8)
  - (4) Sales Tax letter dated December 3, 1993.(8)

11 Computation of Net Income per Class A, Common and Class A Share and Common Share Equivalents.

21 Subsidiaries of the Registrant.

23 Consent of Independent Auditors.

(b) Reports on form 8-K:

-- Report on Form 8-K (Item 5) dated June 24, 1996.

(c) The response to this portion of Item 14 is submitted as a separate section of this report. See Index to Exhibits in Exhibit Volume I.

(d) The response to this portion of Item 14 is submitted as a separate section of this report.

- - ------------

FOOTNOTES:

(1) Incorporated by reference to the Company's Registration Statement on Form S-8 (Registration No. 33-46338) as filed with the Commission on March 12, 1992.

(2) Incorporated by reference to the Company's Registration Statement on Form S-1 (Registration No. 33-45022) as filed with the Commission on January 10, 1992 (the '1992 Registration Statement').

(3) Incorporated by reference to the Company's Registration Statement on Form S-1 (Registration No. 33-36300) as filed with the Commission on August 6, 1990 (the '1990 Registration Statement').

(4) Such long-term debt does not individually amount to more than 10% of the total assets of the Registrant and its subsidiaries on a consolidated basis. Accordingly, pursuant to Item 601(b)(4)(iii) of Regulation S-K, such instrument is not filed herewith. The Registrant hereby agrees to furnish a copy of any such instrument to the Securities and Exchange Commission upon request.

(5) Incorporated by reference to Amendment No. 1 to the 1992 Registration Statement as filed with the Commission on February 21, 1992.

(6) Incorporated by reference to the Company's Annual Report on Form 10-K as filed with the Commission on August 27, 1992 (File No. 0-19860).

(7) Incorporated by reference to the Company's Registration Statement on Form S-8 (Registration No. 33-74064) as filed with the Commission on January 11, 1994.

(8) Incorporated by reference to the Company's Annual Report on Form 10-K as filed with the Commission on August 26, 1994 (File No. 0-19860).

(9) Incorporated by reference to the Company's Form 10-Q for the quarter ended February 28, 1995 as filed with the Commission on April 13, 1995 (File No. 0-19860).

(10) Incorporated by reference to the Company's Annual Report on Form 10-K as filed with the Commission on August 28, 1995 (File No. 0-19860).

(11) Incorporated by reference to the Company's Registration Statement on Form S-8 (Registration No. 33-98186) as filed with the Commission on October 16, 1995.

SIGNATURES

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

Dated: August 23, 1996 SCHOLASTIC CORPORATION

By /s/ RICHARD ROBINSON
....
RICHARD ROBINSON, CHAIRMAN OF THE BOARD,
PRESIDENT AND CHIEF EXECUTIVE OFFICER

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

SIGNATURE	TITLE	DATE
/S/ RICHARD ROBINSON .... RICHARD ROBINSON	Chairman of the Board, President, Chief Executive Officer and Director (Principal Executive Officer)	August 23, 1996
/S/ RICHARD M. SPAULDING .... RICHARD M. SPAULDING	Executive Vice President and Director	August 23, 1996
/S/ KEVIN J. MCENERY .... KEVIN J. MCENERY	Executive Vice President, Chief Financial Officer (Principal Financial & Accounting Officer)	August 23, 1996
/S/ REBECA MARIA BARRERA .... REBECA MARIA BARRERA	Director	August 23, 1996
.... HELEN V. BENHAM	Director	August 23, 1996
/S/ FREDERIC J. BISCHOFF .... FREDERIC J. BISCHOFF	Director	August 23, 1996
/S/ JOHN BRADEMAS .... JOHN BRADEMAS	Director	August 23, 1996
/S/ JOHN C. BURTON .... JOHN C. BURTON	Director	August 23, 1996
/S/ RAMON CORTINES .... RAMON CORTINES	Director	August 23, 1996
/S/ ALONZO A. CRIM .... ALONZO A. CRIM	Director	August 23, 1996

SIGNATURE	TITLE	DATE
.... ANDREW S. HEDDEN	Director	August 23, 1996
/S/ MAE C. JEMISON .... MAE C. JEMISON	Director	August 23, 1996
/S/ RICHARD A. KRINSLEY .... RICHARD A. KRINSLEY	Director	August 23, 1996
/S/ JOAN D. MANLEY .... JOAN D. MANLEY	Director	August 23, 1996
/S/ JOHN G. MCDONALD .... JOHN G. MCDONALD	Director	August 23, 1996
/S/ AUGUSTUS OLIVER II .... AUGUSTUS OLIVER II	Director	August 23, 1996

SCHOLASTIC CORPORATION
ANNUAL REPORT ON FORM 10-K
YEAR ENDED MAY 31, 1996
ITEM 14(D)
FINANCIAL STATEMENT SCHEDULE

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SCHOLASTIC CORPORATION
VALUATION AND QUALIFYING ACCOUNTS AND RESERVES
YEARS ENDED MAY 31, 1996, 1995 AND 1994
(AMOUNTS IN THOUSANDS)

DESCRIPTION	BALANCE AT BEGINNING OF YEAR	ADDITIONS CHARGED TO INCOME	WRITE OFFS	BALANCE AT END OF YEAR
May 31, 1996:				
Reserve for royalty advances	$ 16,591	$ 1,892	$ 120	$ 18,363
Reserve for obsolescence	$ 18,186	$15,544	$ 10,007	$ 23,723
Reserve for returns	$ 19,839	$47,714	$ 39,899(1)	$ 27,654
May 31, 1995:				
Reserve for royalty advances	$ 14,777	$ 1,993	$ 179	$ 16,591
Reserve for obsolescence	$ 15,604	$ 7,034	$ 4,452	$ 18,186
Reserve for returns	$ 14,887	$30,460	$ 25,508(1)	$ 19,839
May 31, 1994:				
Reserve for royalty advances	$ 13,186	$ 2,486	$ 895	$ 14,777
Reserve for obsolescence	$ 12,887	$ 6,609	$ 3,892	$ 15,604
Reserve for returns	$ 9,964	$25,239	$ 20,316(1)	$ 14,887

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(1) Represents actual returns charged to reserve.

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EXHIBIT INDEX

EXHIBIT NO.	DESCRIPTION	PAGE NUMBER
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(b)	-- Amendment to the Amended and restated Loan Agreement dated May 1, 1996........................	
(c)	-- Revolving Loan Agreement dated June 19, 1995 between the Registrant and Sun Bank, National Association.(4)..	
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10	Material Contracts:	
(a)	-- Scholastic Inc. 401(k) Savings and Retirement Plan, as amended and restated as of June 1, 1992.(11)...	
(b)	-- Amended and Restated Retirement Income Plan for Employees of Scholastic Inc. effective as of July 1, 1989.(11)..	
(c)	-- 1992 Stock Option Plan.(7)..	
(d)	-- 1995 Stock Option Plan.(12)...	
(e)	-- Non-qualified Stock Option Agreement dated July 16, 1987 between the Registrant and Joseph W. Oliver.(3)...	
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(g)	-- Amendment agreement dated as of April 1, 1993 between Ise Hiyoko, Inc. and Scholastic Inc.(9)...	
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	(4) Sales Tax letter dated December 3, 1993.(9)..	
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21	Subsidiaries of the Registrant..	
23	Consent of Independent Auditors...	

FOOTNOTES:

(1) Incorporated by reference to the Company's Registration Statement on Form S-8 (Registration No. 33-46338) as filed with the Commission on March 12, 1992.

(2) Incorporated by reference to the Company's Registration Statement on Form S-1 (Registration No. 33-45022) as filed with the Commission on January 10, 1992 (the '1992 Registration Statement').

(3) Incorporated by reference to the Company's Registration Statement on Form S-1 (Registration No. 33-36300) as filed with the Commission on August 6, 1990 (the '1990 Registration Statement').

(4) Such long-term debt does not individually amount to more than 10% of the total assets of the Registrant and its subsidiaries on a consolidated basis. Accordingly, pursuant to Item 601(b)(4)(iii) of Regulation S-K, such instrument is not filed herewith. The Registrant hereby agrees to furnish a copy of any such instrument to the Securities and Exchange Commission upon request.

(5) Incorporated by reference to the Company's Registration Statement on Form S-8 (Registration No. 33-48655) as filed with the Commission on June 22, 1992.

(6) Incorporated by reference to Amendment No. 1 to the 1992 Registration Statement as filed with the Commission on February 21, 1992.

(7) Incorporated by reference to the Company's Annual Report on Form 10-K as filed with the Commission on August 27, 1992 (File No. 0-19860).

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(12) Incorporated by reference to the Company's Registration Statement on Form S-8 (Registration No. 33-98186) as filed with the Commission on October 16, 1995.

STATEMENT OF DIFFERENCES

The service mark symbol shall be expressed as 'sm'
The trademark symbol shall be expressed as 'tm'
The registered trademark symbol shall be expressed as 'r'

EXECUTION COPY

LETTER AMENDMENT

Dated as of May 1, 1996

To the banks, financial institutions
and other institutional lenders
(collectively, the "Banks") parties
to the Loan Agreement referred to
below and to Citibank, N.A., as agent
(the "Agent") for the Banks

Ladies and Gentlemen:

We refer to the Amended and Restated Loan Agreement dated as of April 11, 1995 (as amended, supplemented or otherwise modified through the date hereof, the "Loan Agreement") among the undersigned and you. Capitalized terms not otherwise defined in this Letter Amendment have the same meanings as specified in the Loan Agreement.

The Loan Agreement is, effective as of the date of this Letter Amendment, hereby amended as follows:

(a) Section 1.01 is amended as follows:

(i) Section 1.01 is amended by deleting the table beginning on the sixth line of the definition "Applicable LIBO Margin Rate" and substituting therefor the following table:

"

Rating S&P/Moody's	Applicable LIBO Margin Rate	Applicable Commitment Fee Rate
A-1/P-1	0.325%	0.10%
A-2/P-2	0.375%	0.15%
A-3/P-3	0.55%	0.2125%
B/NP	0.80%	0.3125%
lower than B/NP or not rated	0.90%	0.3625%

".

(ii) Section 1.01. is further amended by deleting the defined term "Robinson Family" and substituting therefor the following:

"Robinson Family" shall mean: Richard Robinson, Barbara Robinson Buckland, Florence R. Ford, Mary Sue Robinson Morrill and William W. Robinson, the spouses and descendants of any of them, and any trust or estate whose legal representatives (or in the case of a Person with more than one legal representative, at least half of whose legal representatives) consist of one or more of the foregoing individuals, spouses and descendants; and the trusts respectively created under the will of Maurice R. Robinson and the will of Florence L. Robinson so long as at least half of their respective trustees continue to consist of one or more of the foregoing individuals, spouses and descendants."

(b) Section 2.04(g) is amended in full to read as follows:

"(g) After notice from the Agent during the continuance of an Event of Default under Section 7.01(c) prior to maturity, and at all times after the Maturity Date, the Loans shall bear additional interest (computed on the basis of actual number of days elapsed and a year of 365 days) on the unpaid principal balance of the Loans outstanding from time to time during such period(s) at a rate equal to two percent (2.00%) per annum, which amounts shall be payable by the Borrowers in addition to, and at the same times as, the regular interest payments on the Loans required pursuant to the preceding subsections of this Section, subject, however, to the maximum rate permitted by applicable law as provided in Section 2.10 hereof."

(c) Section 2.06(a) is amended in full to read as follows:

"Section 2.06. Commitment Fee; Agency Fee; Etc. (a) The Borrowers shall pay to the Agent (for the benefit of all of the Banks sharing in the Revolving Credit Loans) on the last Business Day of February, May, August and November of each year during the Revolving Credit Period, and on the last day of the Revolving Credit Period, in arrears, commencing on the first such date following the Effective Date, a fee respecting the availability of the Commitment (the "Commitment Fee") equal to the Applicable Commitment Fee Rate (computed on the basis of the actual number of days elapsed and a year of 365 days) of the average daily unadvanced portion of the Commitment during the three calendar month period then ending or portion thereof (with the Letters of Credit Amount being considered an advance under the Commitment)."

(d) Section 3.04(a)(ii) is amended in full to read as follows:

"(ii) any Material Document or any Corporate Document that would be reasonably likely to have a Material Adverse Effect".

(e) Section 6.01 is amended as follows:

(i) Section 6.01(a) is amended in full to read as follows:

"(a) The Borrowers shall maintain at all times a Consolidated Debt Ratio of not more than 0.60:1; provided that during the first and second fiscal quarters of each fiscal year, the Borrowers shall maintain a Consolidated Debt Ratio of not more than 0.65:1."

(ii) Section 6.01(b) is amended in full to read as follows:

"(b) The Borrowers shall maintain as at the last day of each of their fiscal quarters a Consolidated Interest Coverage Ratio of not less than 4.00:1."

(f) Section 6.02 is amended in full to read as follows:

"Section 6.02. Liens and Encumbrances. Neither Borrower shall, and the Borrowers shall not cause, suffer or permit any of the Subsidiaries, directly or indirectly: (a) to make, create, incur, assume or permit to exist any assignment, pledge, mortgage, security interest or other lien or encumbrance of any nature in, to or against any part of the assets or properties of either Borrower or any of the Subsidiaries; (b) to purchase or otherwise acquire any asset or property of any character subject to any of the foregoing encumbrances (including any conditional sale contract or other title retention agreement); (c) to assign, pledge or in any way transfer, restrict or encumber its right to receive any income or other distribution or proceeds from any part of the assets or properties of either Borrower or any of the Subsidiaries; (d) to enter into any sale-leaseback financing respecting any part of the assets or properties of either Borrower or any of the Subsidiaries; or (e) to offer or agree to or cause or assist the inception or continuation of any of the foregoing; provided, however, that the foregoing restrictions shall not prohibit the following to the extent otherwise not prohibited by this Agreement:

(i) liens for taxes, assessments or other governmental charges, levies or claims not then required to be paid under Section 5.06 so long as any reserve has been established as required by that Section;

(ii) liens of carriers, warehousemen, mechanics, laborers and materialmen incurred in the ordinary course of business for sums not then required to be paid under Section 5.06 so long as any reserve has been established as required by that Section;

(iii) liens incurred in the ordinary course of business in connection with worker's compensation, unemployment insurance, statutory obligations, social security legislation or rental or other security deposits, or for any purpose at the time required by law as a condition precedent to the transaction of business or the exercise of any of the privileges or licenses of either Borrower or any of the Subsidiaries, so long as the underlying obligations are not then required to be paid under Section 5.06 hereof and any reserve has been established as required by that Section;

(iv) liens incurred in respect of judgments and awards discharged within 30 days from the making thereof or under review in an appropriate forum so long as enforcement thereof is effectively stayed;

(v) security interests (including leases treated as security interests) in equipment or property purchased or leased so long as they respectively secure only the corresponding purchase money indebtedness or capitalized lease obligations;

(vi) security interests (including leases treated as security interests) existing in assets or properties at the time of acquisition of such assets or properties, or the acquisition of the Person owning such assets or properties, so long as such security interests continue to encumber only such assets or properties;

(vii) any security interests or liens on the ownership interest of the Borrowers or any Subsidiaries in the COLI Policies;

(viii) any security interests and other liens and encumbrances granted from time to time to the Agent (for the benefit of all of the Banks);

(ix) liens on accounts receivable and proceeds thereof arising solely in connection with the sale or other disposition of such accounts receivable pursuant to Section 6.03; and

(x) currently existing liens and negative pledges that are disclosed in Schedule 3.10(a) hereto (other than those securing indebtedness being retired with the proceeds of the Loans or otherwise replaced by this Agreement), but those liens or pledges shall not be increased or extended to other indebtedness (but may be renewed or extended) unless otherwise permitted by the terms and provisions of this Agreement."

(g) Section 6.03 is amended in full to read as follows:

"Section 6.03. Sale or Disposition of Assets, Etc. Neither Borrower shall, and shall not cause, suffer or permit any of the Subsidiaries to, directly or indirectly, sell, lease, sublease, transfer, exchange or otherwise dispose of any part of the assets or properties of either Borrower or any of the Subsidiaries (individually or in a series of related transactions) (a) for less than the fair market value of such assets and properties or (b) involving assets and properties with an aggregate fair market value of more than $35,000,000, or offer or agree to do so, without the approval of Majority Banks; provided, however, that the Borrowers and the Subsidiaries may (i) sell inventory and equipment in the ordinary course of business without regard to this Section and (ii) sell or otherwise dispose of any accounts receivable of the Borrowers from time to time, for cash and at least equal to the fair value of such accounts receivable in the ordinary course of business of the Borrowers and their Subsidiaries."

(h) Section 6.04 is amended in full to read as follows:

"Section 6.04. Certain Fundamental Changes. Neither Borrower shall, and shall not cause, suffer or permit any of the Significant Subsidiaries (as applicable), directly or indirectly, to effect, enter into or offer or agree to: (a) any issuance, sale, transfer, pledge or other disposition or encumbrance of any equity securities issued by the Operating Company or any of the Significant Subsidiaries, or the issuance of any option, warrant or other right to acquire any such securities; (b) any capital reorganization or reclassification of the capital stock or other equity interests of either Borrower; (c) any transaction in which the equity interests of either Borrower prior to the transaction would be changed into or exchanged for different securities, whether of that or any other Person, or for any other assets or properties; (d) except as otherwise permitted

by Section 6.03 hereof, any sale, lease, assignment, conveyance, spin-off or other transfer or disposition of all or any material part of the business or assets and properties of either Borrower or any Significant Subsidiary; (e) any merger, consolidation, dissolution, liquidation or winding up, provided, however, (i) any wholly-owned Subsidiary may merge into or consolidate with any other wholly-owned Subsidiary or either Borrower (so long as such Borrower is the survivor), and (ii) either Borrower may merge with any Person so long as such Borrower is the surviving corporation, no Default or Event of Default is then continuing or would result therefrom, with the various financial measurements and covenants set forth in Section 6.01 of this Agreement being recalculated on a pro forma basis (from the then most recent quarterly or subsequent pro forma calculations) to include the effect of such merger, and any resulting acquisition is permitted under subsection (f) of this Section; (f) the acquisition or establishment of any new subsidiary or joint venture, or the acquisition of all or substantially all of the assets and properties of any other Person or any discrete division or other business unit thereof, provided, however, that, so long as no Default or Event of Default is then continuing or would result therefrom, with the various financial measurements and covenants set forth in Section 6.01 of this Agreement being recalculated on a pro forma basis (from the then most recent quarterly or subsequent pro forma calculations) to include the effect of such acquisition, the Borrowers and the Subsidiaries may acquire all or substantially all of the assets and properties of, acquire an equity interest in, or enter into any new joint venture that is or will be (A) any Person whose assets and business are (or are to be) substantially similar to the assets and business of the Borrowers or the Subsidiaries on the date hereof and (B) any other Person so long as the aggregate fair market value of all such assets and properties acquired from such other Person (directly or indirectly through the acquisition of equity) does not (or will not) exceed $35,000,000; or (g) any material change in the character of the business of either Borrower or of the Borrowers and the subsidiaries taken as a whole, in each case as conducted on the date of this Agreement."

(i) Section 6.05 is amended in full to read as follows:

"Section 6.05. Distributions to Shareholders. Neither Borrower shall, and the Borrowers shall not cause, suffer or permit any of the Subsidiaries to, directly or indirectly: (a) declare or make any dividend, payment or other distribution of cash, assets or property with respect to any common or preferred stock issued by the Holding Company, whether now or hereafter outstanding; (b) redeem, purchase or otherwise acquire any common or

preferred stock issued by the Holding Company or any option or other right to acquire any such securities (other than any redemption or repurchase of the Holding Company's outstanding 5% convertible subordinated debentures due August 15, 2005, as in effect on the date hereof, pursuant to the application of the change of control provision contained therein, or any substantially identical provision contained in any subsequent issuance of convertible debt); (c) covenant or otherwise arrange with any Person (other than the Banks in any Loan Instrument) to directly or indirectly limit or otherwise restrict any dividend, advance or other payment or distribution (whether of cash or otherwise); or (d) offer or agree to do any of the foregoing; provided, however, that the Holding Company may make any such dividend, payment or other distribution with respect to any equity securities issued by it, or redeem, purchase or otherwise acquire any equity securities issued by the Holding Company, so long as no Default or Event of Default is then continuing or would result therefrom, with the various financial measurements and covenants set forth in Section 6.01 of this Agreement being recalculated on a pro forma basis (from the then most recent quarterly or subsequent pro forma calculations) to include the effect of the proposed dividend or other action, and the aggregate amount of such dividends or other actions in any fiscal year does not exceed 50% of the consolidated Net Income (adjusted to exclude any nonrecurring gains and losses) of the Borrowers and the Subsidiaries for the immediately preceding fiscal year."

(j) Section 7.01(f) is amended in full to read as follows:

"(f) any payment default of $2,000,000 or more shall occur under any instrument or agreement (other than a Loan Instrument) respecting any Debt of either Borrower or any of the Subsidiaries, or any such Debt of $5,000,000 or more in principal or notional amount shall be accelerated or otherwise become due or be required to be prepaid, repurchased or redeemed (other than pursuant to a regularly scheduled mandatory prepayment, repurchase or redemption or the application of the change of control provision contained in the Holding Company's outstanding 5% convertible subordinated debentures due August 15, 2005, as in effect on the date hereof, or any substantially identical provision contained in any subsequent issuance of debt) prior to its scheduled maturity, unless payment shall be made or action shall be taken within five (5) Business Days after such default in an amount or manner sufficient to cure it, provided that such payment or action will not result in a breach of any term or provision of this Agreement and the other Loan Instruments, with the various financial measurements and covenants set forth in Section 6.01 of this Agreement being recalculated on a pro forma

basis (from the then most recent quarterly or subsequent pro forma calculations) to include the effect of any such payment;"

(k) Section 9.14(f) is amended in full to read as follows:

"(f) Subject to the terms and provisions of this Agreement, each Bank from time to time may sell to one or more other financial institutions or institutional investors (other than the Borrowers or any of their Affiliates) a participation interest in all or an undivided portion of its rights, powers, privileges, remedies and interests under this Agreement and the other Loan Instruments, in any case with the consent of the Borrowers (such consent not to be unreasonably withheld or delayed); provided that no Bank shall permit its direct or indirect participant to further assign or participate its interests hereunder. However, the sale or other transfer of a participation shall not reduce, shift or otherwise affect any of the agreements, duties, obligations or liabilities of the selling Bank under this Agreement or any other Loan Instrument, which shall continue in full force and effect and remain the sole responsibility of the selling Bank, and each such selling Bank agrees that it will not raise (and hereby expressly waives) any defense relating to any such participation. Furthermore, no Bank shall grant to any participant the right to approve any supplement to, modification, amendment, restatement or waiver of or departure from this Agreement or any other Loan Instrument other than with respect to any reduction in the principal of the Loans or in the calculation of interest or fees thereon, or any postponement of any date fixed for any payment of principal or interest or fees on the Loans, to the extent the participant has an interest in such Loans. The Agent and other Banks and the Borrowers may continue to deal directly and exclusively with any such selling Bank."

This Letter Amendment shall become effective as of the date first above written when, and only when, on or before May 31, 1996, the Agent shall have received counterparts of this Letter Amendment executed by the undersigned and all of the Banks or, as to any of the Banks, advice satisfactory to the Agent that such Bank has executed this Letter Amendment. This Letter Amendment is subject to the provisions of Section 8.11 of the Loan Agreement.

On and after the effectiveness of this Letter Amendment, each reference in the Loan Agreement to "this Agreement", "hereunder", "hereof" or words of like import referring to the Loan Agreement, and each reference in the Notes and each of the other Loan Instruments to "the Loan Agreement", "thereunder", "thereof" or words of like import

referring to the Loan Agreement, shall mean and be a reference to the Loan Agreement, as amended by this Letter Amendment.

The Loan Agreement, the Notes and each of the other Loan Instruments, as specifically amended by this Letter Amendment, are and shall continue to be in full force and effect and are hereby in all respects ratified and confirmed. The execution, delivery and effectiveness of this Letter Amendment shall not, except as expressly provided herein, operate as a waiver of any right, power or remedy of any Bank or the Agent under any of the Loan Instruments, nor constitute a waiver of any provision of any of the Loan Instruments.

If you agree to the terms and provisions hereof, please evidence such agreement by executing and returning at least three counterparts of this Letter Amendment to Citibank, N.A., 399 Park Avenue, New York, NY 10043, Attn: Heidi McKibben.

This Letter Amendment may be executed in any number of counterparts and by different parties hereto in separate counterparts, each of which when so executed shall be deemed to be an original and all of which taken together shall constitute one and the same agreement. Delivery of an executed counterpart of a signature page to this Letter Amendment by telecopier shall be effective as delivery of a manually executed counterpart of this Letter Amendment.

This Letter Amendment shall be governed by, and construed in accordance with, the laws of the State of New York.

Very truly yours,

SCHOLASTIC CORPORATION

By: KEVIN McENERY

Name: Kevin McEnery
Title: Executive Vice President and Chief Financial Officer

SCHOLASTIC INC.

By: KEVIN McENERY
Name: Kevin McEnery
Title: Executive Vice President and Chief Financial Officer

Agreed as of the date first above written:

CITIBANK, N.A., as Agent

By: THOMAS D. STOTT
Name: Thomas D. Stott
Title: Vice President

BANKS
- - -----

CITIBANK, N.A.

By: THOMAS D. STOTT
Name: Thomas D. Stott
Title: Vice President

THE CHASE MANHATTAN BANK, N.A.

By: GASPARE GALANTE Jr.
Name: Gaspare Galante Jr.
Title: Second Vice President

THE FIRST NATIONAL BANK OF BOSTON

By: JULIE V. JALELIAN
Name: Julie V. Jalelian
Title: Assistant Vice President

MARINE MIDLAND BANK

By: WILLIAM M. HOLLAND
Name: William M. Holland
Title: Vice President

UNITED JERSEY BANK

By: LAWRENCE F. ZEMA
Name: Lawrence F. Zema
Title: Vice President & Regional Manager

EXHIBIT 11

SCHOLASTIC CORPORATION
COMPUTATION OF NET INCOME PER CLASS A, COMMON AND
CLASS A SHARE AND COMMON SHARE EQUIVALENTS
YEARS ENDED MAY 31, 1996, 1995, AND 1994
(AMOUNTS IN THOUSANDS EXCEPT SHARES AND PER SHARE DATA)

	1996	1995	1994
Earnings before cumulative effect of accounting changes	$ 31,897	$ 38,578	$ 32,929
Cumulative effect of accounting changes	--	--	8,135
NET INCOME USED FOR PRIMARY EARNINGS PER SHARE	31,897	38,578	24,794
Net interest savings from assumed conversion of Convertible Subordinated Debentures	2,978	--	--
NET INCOME USED FOR FULLY DILUTED EARNINGS PER SHARE	$ 34,875	$ 38,578	$ 24,794
Primary:			
Weighted average Class A and Common Shares outstanding	15,787,735	15,550,964	15,460,736
Common Share equivalents arising from outstanding options computed on the treasury stock method	408,121	691,557	693,983
PRIMARY CLASS A, COMMON AND CLASS A AND COMMON SHARE EQUIVALENTS OUTSTANDING	16,195,856	16,242,521	16,154,719
Fully diluted:			
Additional dilutive effect of outstanding options computed on the treasury stock method	12,169	42,989	--
Assumed conversion of Convertible Subordinated Debentures	1,133,012	--	--
FULLY DILUTED CLASS A, COMMON AND CLASS A SHARE AND COMMON SHARE EQUIVALENTS OUTSTANDING	17,341,037	16,285,510	16,154,719
Primary earnings per share before cumulative effect of accounting changes	$ 1.97	$ 2.38	$ 2.04
Cumulative effect of accounting changes	--	--	(.51)
PRIMARY EARNINGS PER SHARE	$ 1.97	$ 2.38	$ 1.53
Fully diluted earnings per share before cumulative effect of accounting changes	$ 2.01	$ 2.37	$ 2.04
Cumulative effect of accounting changes	--	--	(.51)
FULLY DILUTED EARNINGS PER SHARE(1)	$ 2.01	$ 2.37	$ 1.53

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(1) Fiscal 1996 fully diluted earnings per share is antidilutive, therefore, primary earnings per share is presented on the Consolidated Statement of Income.

EXHIBIT 21

SCHOLASTIC CORPORATION
SUBSIDIARIES OF THE REGISTRANT

DOMESTIC SUBSIDIARIES	STATE OF INCORPORATION
Scholastic Inc.	New York
Scholastic Book Fairs, Inc.	New York
California School Book Fairs, Inc.	California
Scholastic Book Clubs, Inc.	Missouri
Scholastic Productions, Inc.	New York
Scholastic Publications (Magazines), Ltd.	Delaware
ReadStreet Book Fairs, Inc.	Delaware
Trumpet Book Clubs, Inc.	Delaware
Weston Woods Studios, Inc.	Delaware

FOREIGN SUBSIDIARIES	JURISDICTION
Scholastic Australia Pty. Ltd.	Australia
Oldmeadow Booksellers Pty. Ltd.	Australia
Scholastic Canada Ltd.	Canada
Scholastic New Zealand Ltd. (formerly Ashton Scholastic Ltd.)	New Zealand
Scholastic Ltd.	England
Festival Du Livre	France
Scholastic Mexico SA de CV	Mexico
Scholastic (Barbados), Inc.	Barbados

EXHIBIT 23

CONSENT OF INDEPENDENT AUDITORS

We consent to the incorporation by reference in the Registration Statement (Form S-8 No. 33-91090) pertaining to the Scholastic Inc. 401(K) Savings and Retirement Plan, in the Registration Statement (Form S-8 No. 33-46338) pertaining to the 1992 Stock Option Plan as of May 19, 1992, in the Registration Statement (Form S-8 No. 33-98186) pertaining to the 1995 Stock Option Plan, in the Registration Statement (Form S-8 No. 33-50128) pertaining to the Outside Directors' Stock Option Plan and the Stock Option Agreement with Joseph W. Oliver and in the Registration Statement (Form S-8 No. 33-74064) pertaining to the Non-Employee Director Stock-For-Retainer Plan of our report dated July 3, 1996, with respect to the consolidated financial statements and schedule of Scholastic Corporation included in this Annual Report (Form 10-K) for the year ended May 31, 1996.

/s/ Ernst & Young LLP
Ernst & Young LLP

New York, New York
August 21, 1996

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YEAR
MAY-31-1996
MAY-31-1996
4,300
0
129,680
11,290
189,978
350,480
146,155
32,018
673,166
173,398
110,000
163
0
0
288,484
673,166
928,599
928,599
466,030
833,406
37,358
9,565
11,170
46,665
14,768
31,897
0
0
0
31,897
1.97
1.97