



United States  
 Securities and Exchange Commission  
 Washington, D.C. 20549

## Form 10-K

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

For the fiscal year ended May 31, 2007 | Commission File No. 000-19860

# Scholastic Corporation

(Exact name of Registrant as specified in its charter)

**Delaware**  
 (State or other jurisdiction of  
 incorporation or organization)

**13-3385513**  
 (IRS Employer Identification No.)

**557 Broadway, New York, New York**  
 (Address of principal executive offices)

**10012**  
 (Zip Code)

Registrant's telephone number, including area code: (212) 343-6100  
 Securities Registered Pursuant to Section 12(b) of the Act:

Title of class	Name of Each Exchange on Which Registered
Common Stock, \$0.01 par value	The NASDAQ Stock Market LLC

Securities Registered Pursuant to Section 12(g) of the Act:  
 NONE

Indicate by check mark if the Registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes  No

Indicate by check mark if the Registrant is not required to file reports pursuant to Section 13 or Section 15(d) of Act. Yes  No

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  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.

Indicate by check mark whether the Registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer     Accelerated filer     Non-accelerated filer

Indicate by check mark whether the Registrant is a shell company (as defined in Rule 12b-2 of the Act).  
 Yes  No

The aggregate market value of the Common Stock, par value \$0.01, held by non-affiliates as of November 30, 2006, was approximately \$1,134,508,532. As of such date, non-affiliates held no shares of the Class A Stock, \$0.01 par value. There is no active market for the Class A Stock.

The number of shares outstanding of each class of the Registrant's voting stock as of June 30, 2007 was as follows: 36,583,142 shares of Common Stock and 1,656,200 shares of Class A Stock.

### 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 19, 2007.

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# Part I

## Item 1 | Business

### Overview

Scholastic Corporation (the “Corporation” and together with its subsidiaries, “Scholastic” or the “Company”) is a global children’s publishing, education and media company. Since its founding in 1920, Scholastic has emphasized quality products and a dedication to reading and learning. The Company is the world’s largest publisher and distributor of children’s books and a leading developer of educational technology products. Scholastic also creates quality educational and entertainment materials and products for use in school and at home, including magazines, children’s reference and non-fiction materials, teacher materials, television programming, film, videos and toys. The Company is a leading operator of school-based book clubs and book fairs and continuity programs in the United States. It distributes its products and services through these proprietary channels, as well as directly to schools and libraries, through retail stores and the internet. The Company’s website, [scholastic.com](http://scholastic.com), is a leading site for teachers, classrooms and parents and an award-winning destination for children. In addition to its operations in the United States, Scholastic has long-established operations in Canada, the United Kingdom, Australia, New Zealand and Asia and newer operations in Argentina, China, India, Ireland and Mexico and, through its export business, sells products in over 135 countries.

### Operating Segments

The Company categorizes its businesses into four operating segments: *Children’s Book Publishing and Distribution*; *Educational Publishing*; *Media, Licensing and Advertising* (which collectively represent the Company’s domestic operations); and *International*. This classification reflects the nature of products and services consistent with the method by which the Company’s chief operating decision-maker assesses operating performance and allocates resources. Revenues and operating margin related to a segment’s products sold or services rendered through another segment’s distribution channel are reallocated to the segment originating the products or services.

The following table sets forth revenues by operating segment for the three fiscal years ended May 31:

	(Amounts in millions)		
	2007	2006	2005
Children’s Book Publishing and Distribution	\$ 1,155.3	\$ 1,304.0	\$ 1,152.5
Educational Publishing	412.7	416.1	404.6
Media, Licensing and Advertising	162.5	151.6	133.1
International	448.6	412.1	389.7
<b>Total</b>	<b>\$ 2,179.1</b>	<b>\$ 2,283.8</b>	<b>\$ 2,079.9</b>

Additional financial information covering the Company’s operating segments is included in Note 2 of Notes to Consolidated Financial Statements in Item 8, “Consolidated Financial Statements and Supplementary Data,” which is included herein.

### CHILDREN’S BOOK PUBLISHING AND DISTRIBUTION

(53.0% of fiscal 2007 revenues)

#### General

The Company’s *Children’s Book Publishing and Distribution* segment includes the publication and distribution of children’s books in the United States through school-based book clubs and book fairs, school-based and direct-to-home continuity programs and the trade channel.

The Company is the world’s largest publisher and distributor of children’s books and is the largest operator of school-based book clubs and school-based book fairs in the United States. The Company is also a leading publisher of children’s books distributed through the trade channel and the leading distributor in the United States of children’s books through direct-to-home continuity programs primarily for children ages five and younger. In fiscal 2007, the Company published or distributed approximately 400 million children’s books in the United States.



Scholastic offers a broad range of children's books, many of which have received awards for excellence in children's literature, including the Caldecott and Newbery Awards.

The Company obtains titles for sale through its distribution channels from three principal sources. The first source for titles is the Company's publication of books created under exclusive agreements with authors, illustrators, book packagers or other media companies. Scholastic generally controls the exclusive rights to sell these titles through all channels of distribution in the United States and, to a lesser extent, internationally. Scholastic's second source of titles is licenses to publish books exclusively in specified channels of distribution, including reprints of books originally published by others for which the Company acquires rights to sell in the school market and original publications for exclusive sale in direct-to-home continuity programs. The third source of titles is the Company's purchase of finished books from other publishers to be sold in the school market.

### **School-Based Book Clubs**

Scholastic founded its first school-based book club in 1948. The Company's school-based book clubs consist of *Honeybee*<sup>®</sup>, serving children ages 1½ to 4; *Firefly*<sup>®</sup>, serving pre-kindergarten ("pre-K") and kindergarten ("K") students; *SeeSaw*<sup>®</sup>, serving students grades K to 1; *Lucky*<sup>®</sup>, serving students grades 2 to 3; *Arrow*<sup>®</sup>, serving students grades 4 to 6; *TAB*<sup>®</sup>, serving students grades 7 to 12; and *Club Leo*<sup>™</sup>, which provides Spanish language offers to students pre-K to grade 8. In fiscal 2007, the Company implemented its previously announced plan to eliminate two of its smaller clubs, *Trumpet*<sup>®</sup> and *Troll*<sup>®</sup>/*Carnival*<sup>®</sup>. In addition to its regular offers, the Company creates special theme-based offers targeted to different grade levels during the year.

The Company mails promotional materials containing order forms to teachers in the vast majority of the pre-K to grade 8 classrooms in the United States. Teachers who wish to participate in a school-based book club distribute the order forms to their students, who may choose from selections at substantial reductions from list prices. The teacher aggregates the students' orders and forwards them to the Company by internet, phone, mail or fax. The Company estimates that over 80% of all elementary school teachers in the United States participate in the Company's school-based book clubs. In fiscal 2007, orders through the internet accounted for approximately 50% of total book club orders. The orders are then shipped to the teacher for distribution to the students. Teachers who participate in the book clubs receive bonus points, which may be redeemed for the purchase of additional books and other resource materials for their classrooms or the school.

### **School-Based Book Fairs**

Scholastic entered the school-based book fair business in 1981. Since that date, the Company has grown this business by expanding into new markets, including through selected acquisitions, and by increasing its business in its existing markets by (i) growing revenue on a per fair basis and (ii) increasing the number of fairs held at its existing school customers. The Company is the leading operator of school-based book fairs in the United States.

Book fairs are generally week-long events conducted on school premises, operated by school librarians and/or parent-teacher organizations. Book fair events provide children with access to hundreds of titles and allow them to purchase books and other select products at the school. The Company provides books to schools for resale, and the schools conduct the book fairs as fundraisers for a variety of purposes, such as to purchase books, supplies and equipment for the school, and to make quality books available to their students in order to stimulate interest in reading.

The Company operates school-based book fairs in all 50 states under the name *Scholastic Book Fairs*<sup>®</sup>. Books and display cases are delivered to schools from the Company's warehouses principally by a fleet of leased vehicles. Sales and customer service functions are performed from regional sales offices supported by field representatives and from the Company's distribution facilities in Missouri and Arkansas. Over 85% of the schools that sponsored a Scholastic book



fair in fiscal 2006 sponsored a Scholastic book fair again in fiscal 2007.

## Continuity Programs

The Company operates continuity programs whereby families generally place an order to receive multiple shipments of children's books over a period of time. Continuity programs are promoted through (i) direct-to-home offers, primarily through print promotions, the internet, telemarketing and direct mail, and (ii) offers in the Company's school-based book clubs. The Company's direct-to-home continuity business is the leading direct-to-home seller of books for children age five and under. In fiscal 2007, offerings through the Company's direct-to-home continuity business included Scholastic publishing properties, such as *The New Book of Knowledge*<sup>®</sup> encyclopedia, *My First Steps to Learning*<sup>®</sup> and *Scholastic's Phonics Reading Program*, as well as licensed programs, such as *Disney Wonderful World of Reading*<sup>™</sup>, *Dr. Seuss and Friends*<sup>™</sup>, *Nick Jr.*<sup>™</sup>, *Play to Learn*, and *Veggie Tales*<sup>™</sup>. Continuity programs offered through Scholastic's school-based book clubs include *Care Bears*<sup>®</sup> *Ultimate Magic*, *Thomas and Friends*<sup>™</sup>, *Ultimate Spy University*<sup>™</sup> and *How to Master Everything*.

## Trade

Scholastic is a leading publisher of children's books sold through bookstores and mass merchandisers in the United States. The Company maintains approximately 6,000 titles for trade distribution. Scholastic's original publications include *Harry Potter*<sup>®</sup>, *I Spy*<sup>™</sup>, *Captain Underpants*<sup>®</sup>, *Clifford The Big Red Dog*<sup>®</sup>, *Geronimo Stilton*<sup>®</sup> and *Goosebumps*<sup>®</sup> and licensed properties such as *Taggies*<sup>®</sup>, *Scooby-Doo*<sup>®</sup>, *Star Wars*<sup>®</sup> and *Littlest Pet Shop*. In addition, the Company's Klutz<sup>®</sup> imprint is a publisher and creator of "books plus" products for children, including titles such as *Paper Fashions* and *How to Make Paper Airplanes*.

The Company's trade sales organization focuses on marketing and selling Scholastic's publishing properties to bookstores, mass merchandisers, specialty sales outlets and other book retailers. Scholastic bestsellers during fiscal 2007 included books from the *Harry Potter*, *Captain Underpants*, *I Spy*, *Taggies*, *Lego* and *Charlie Bone*<sup>™</sup> series and individual titles, such as *The Wandmaker's Guidebook*, *The Invention of Hugo Cabret* and *I Love You Through and Through*.

## Other

Also included in this segment is The Book People, a direct seller of books for children and adults through display marketing and corporate book fairs in hospitals, office buildings and other point of sale locations. In fiscal 2007, the Company decided to focus on growing the more profitable corporate book fairs portion of this business and, as a result, exited the display marketing portion of this business.

## EDUCATIONAL PUBLISHING

(18.9% of fiscal 2007 revenues)

### General

The Company's *Educational Publishing* segment includes the production and/or publication and distribution to schools and libraries of educational technology products, curriculum materials, children's books, classroom magazines and print and on-line reference and non-fiction products for grades pre-K to 12 in the United States.

The Company is a leading provider of educational technology products and reading materials for schools and libraries. Scholastic has been providing quality, innovative educational materials to schools and libraries since it began publishing classroom magazines in the 1920s. The Company added supplementary books and texts to its product line in the 1960s, professional books for teachers in the 1980s and early childhood products and core curriculum materials, including educational technology products, in the 1990s. In 1996, the Company strengthened its Spanish language offerings through the acquisition of Lectorum Publications, Inc., the largest Spanish language book distributor to schools and libraries in the United States. As a result of the acquisition of Grolier Incorporated ("Grolier") in 2000, the Company is the leading print and on-line publisher of children's reference and non-fiction products sold primarily to school libraries in the United States. In 2002, the Company acquired Tom Snyder Productions, Inc., a developer and publisher of interactive educational



software. The Company markets and sells its *Educational Publishing* products through a combination of field representatives, direct mail, telemarketing and the internet.

### **Curriculum Publishing and Educational Technology**

Scholastic's curriculum publishing operations develop and distribute instructional materials directly to schools in the United States, primarily purchased through school and district budgets. These core curriculum operations include reading improvement programs and educational technology products.

The Company focuses its core curriculum publishing efforts on reading improvement materials and the effective use of technology to support learning. Scholastic's technology-based reading improvement programs include *READ 180*<sup>®</sup>, a reading intervention program for students in grades 4 to 12 reading at least two years below grade level, *SCHOLASTIC ZIP ZOOM*<sup>™</sup> for grades K to 3, which supports beginning reading skills for English language learners, *ReadAbout*<sup>®</sup> for grades 3 to 6, which combines adaptive technology with engaging non-fiction content, *Scholastic Reading Counts!*<sup>™</sup>, which encourages reading through a school-managed incentive program, and *FASTT Math*<sup>™</sup>, a technology-based program to improve math fluency, developed with the creator of *READ 180*, as well as *Grolier Online*<sup>®</sup>, which provides subscriptions to reference databases for schools and libraries. The Company considers its educational technology products, such as *READ 180*, to be the fastest growing portion of *Educational Publishing* and, as of May 31, 2007, has focused Scholastic Education on technology.

### **Scholastic Classroom and Library Publishing**

The Company distributes paperback collections to schools and school districts for classroom libraries and other uses, as well as to literacy organizations. Scholastic is a leading publisher of quality children's reference and non-fiction products and encyclopedias sold primarily to schools and libraries in the United States. Products include *The New Book of Knowledge* and reference materials published under the Grolier<sup>®</sup> name. The Company's products also include non-fiction books published in the United States under the imprints Children's Press<sup>®</sup> and Franklin Watts<sup>®</sup>, including books from the *America the Beautiful*, *Enchantment of the World* and *True Books* series, as well as Lectorum products.

Scholastic is a leading publisher of classroom magazines. Teachers in grades pre-K to 12 use these magazines as supplementary educational materials. The Company's 31 classroom magazines supplement formal learning programs by bringing subjects of current interest into the classroom.

The magazines are designed to encourage students to read and also to cover diverse subjects, including literature, math, science, current events, social studies and foreign languages. The most well known of the Company's domestic magazines are *Scholastic News*<sup>®</sup> and *Junior Scholastic*<sup>®</sup>.

Scholastic's classroom magazine circulation in the United States in fiscal 2007 was more than 8.1 million, with approximately two-thirds of the circulation in grades pre-K to 6. In fiscal 2007, teachers in approximately 65% of the schools in the United States used the Company's classroom magazines. The various classroom magazines are distributed either on a weekly, biweekly or monthly basis during the school year and are supplemented by timely materials featured on the Company's website, [scholastic.com](http://scholastic.com).

The majority of the magazines purchased are paid for with school or district funds, with teachers or students paying for the balance. Circulation revenue accounted for substantially all of the classroom magazine revenues in fiscal 2007.

### **Teaching Resources**

The Company publishes and sells professional books designed for and generally purchased by teachers, both directly from the Company and through teacher stores and booksellers. The Company also operates its own on-line Teacher Store, which provides professional books and other educational materials to schools and teachers, and [scholastic.com](http://scholastic.com) is a leading website for teachers and classrooms, offering multimedia teaching units, lesson plans, teaching tools and on-line activities.



## **MEDIA, LICENSING AND ADVERTISING** (7.5% of fiscal 2007 revenues)

### **General**

The Company's *Media, Licensing and Advertising* segment includes the production and/or distribution of media and electronic products and programs (including children's television programming, videos, DVD's, software, feature films, interactive and audio products, promotional activities and non-book merchandise); and advertising revenue, including sponsorship programs.

### **Production and Distribution**

Through Scholastic Entertainment Inc. ("SEI"), Soup2Nuts Inc. ("S2N") and the Weston Woods Studio, the Company's entertainment and media division creates and produces television programming, videos, DVD's, feature films, and branded websites. SEI builds consumer awareness and value for the Company's franchises by creating family-focused shows that form the basis for global branding campaigns. Scholastic Media generates revenue by exploiting these assets globally across multiple media formats and by developing and executing brand-marketing campaigns.

SEI has built a television library of over 400 half-hour productions, including: *Clifford The Big Red Dog*, *Clifford's Puppy Days*<sup>TM</sup>, *Maya & Miguel*<sup>TM</sup>, *The Magic School Bus*<sup>®</sup>, *I Spy*, *Goosebumps*, *Animorphs*<sup>®</sup>, *Dear America*<sup>®</sup> and *The Baby-sitters Club*<sup>®</sup>. These series have been sold in the United States and internationally in various media formats. In fiscal 2007, the Company participated in the organization of a new children's programming network, which produces educational children's television programming under the name qubo. This programming network features bilingual content with a mission to promote literacy and values in children's television. The Company offered Dav Pilkey's *Dragon* television series as its first programming contribution to the new network and in addition produced 15 thirty-second pro-literacy public service announcements, which air twice per hour.

In fiscal 2007, the Company announced that SEI would be the producer of *The Golden Compass*, which is a feature film, scheduled to be released in late 2007 based on the first book in Philip Pullman's best-selling trilogy, *His Dark Materials*. SEI is also the licensing agent for *The Golden Compass*, and the Company controls worldwide tie-in publishing rights.

S2N, an award-winning producer of animated television and web programming, has produced over 100 half-hour episodes of television programming, including the animated series *Time Warp Trio* and *O'Grady*<sup>TM</sup>. In fiscal 2007, S2N commenced production of a new animated series called *WordGirl*<sup>TM</sup>, scheduled to be broadcast in the fall of 2007, about a fifth grade girl who transforms into a super-heroine and uses vocabulary to defeat villains.

Weston Woods Studios creates audiovisual adaptations of classic children's picture books, such as *Where the Wild Things Are*, *Chrysanthemum* and *Make Way for Ducklings*, that are initially produced for the school and library market as a supplemental educational resource. SEI has repackaged 40 titles for sale to the consumer market under the *Scholastic Video Collection* banner. Weston Woods Studios has received numerous awards, including eight Andrew Carnegie Medals for Excellence in Children's Video and an Academy Award nomination.

### **Brand Marketing and Consumer Products**

Scholastic Media creates and develops award-winning global branding campaigns for Scholastic properties in order to extend and strengthen Scholastic's consumer connection with parents, children and teachers. In addition to licensing rights for consumer products, SEI designs, manufactures and distributes consumer products primarily based on Scholastic's literary properties, such as a line of upscale plush toys and wooden puzzles based on *Clifford The Big Red Dog*, *The Magic School Bus*, *The Real Mother Goose*<sup>®</sup>, *Maya & Miguel*, *Kim Parker Kids*<sup>TM</sup>, *No David!*<sup>TM</sup>, *Fergus*<sup>TM</sup> and *Dear Mrs. LaRue*<sup>TM</sup>.

The products are available through independent toy/gift stores, specialty chains, department stores,



mail order catalogs and bookstores, as well as through Scholastic's school-based book clubs, school-based book fairs and continuity programs.

## Software and Interactive Products

Scholastic Media distributes original and licensed consumer software, handheld and console products with accessories and DVDs for grades K to 8 through its school-based software clubs, book clubs and book fairs and its continuity programs, as well as the library/teacher market and the trade market. The Company acquires software and interactive products for distribution in all of these channels through a combination of licensing, purchases of product from software publishers and internal development. The Company's CD-ROM and Leapster titles include the award-winning series *I Spy*, *Brain Play*, *Clifford*, *Animal Genius* and *Math Missions*<sup>™</sup>.

## Advertising

Certain of the Company's magazine properties generate advertising revenues as their primary source of revenue, including *Instructor*<sup>®</sup>, *Scholastic Administrator*<sup>™</sup> and *Coach and Athletic Director*<sup>™</sup>, which are directed to teachers and education professionals and are distributed during the academic year. Subscriptions for these magazines are solicited primarily by direct mail, with total circulation of approximately 330,000 in fiscal 2007. *Scholastic Parent and Child*<sup>®</sup> magazine, which is directed at parents and distributed through schools and childcare programs, had circulation of approximately 1.2 million in fiscal 2007. These magazines carry paid advertising, advertising for Scholastic products and paid advertising for clients that sponsor customized programs.

## Other

Also included in this segment are: Scholastic In-School Marketing, which develops sponsored educational materials and supplementary classroom programs in partnership with corporations, government agencies and nonprofit organizations; Back to Basics Toys<sup>®</sup>, a direct-to-home catalog business specializing in children's toys; and Quality Education Data, which develops and markets databases and provides research and analysis focused on teachers, schools and education.

## INTERNATIONAL

(20.6% of fiscal 2007 revenues)

## General

The *International* segment includes the publication and distribution of products and services outside the United States by the Company's international operations, and its export and foreign rights businesses.

Scholastic has long-established operations in Canada, the United Kingdom, Australia, New Zealand and Asia and also has newer operations in Argentina, China, India, Ireland and Mexico. Scholastic's operations in Canada, the United Kingdom and Australia generally mirror its United States business model. The Company's international operations have original trade and educational publishing programs; distribute children's books, software and other materials through school-based book clubs, school-based book fairs, trade channels and direct-to-home continuity programs; distribute magazines; and offer on-line services. Many of the Company's international operations also have their own export and foreign rights licensing programs and are book publishing licensees for major media properties. Original books published by most of these operations have received awards of excellence in children's literature. In Asia, the Company primarily publishes and distributes reference products and provides services under the Grolier name.

## Canada

Scholastic Canada, founded in 1957, is a leading publisher and distributor of English and French language children's books, is the largest school-based book club and school-based book fair operator in Canada and is one of the leading suppliers of original or licensed children's books to the Canadian trade market. Since 1965, Scholastic Canada has also produced quality Canadian-authored books and educational materials, including an early reading program sold to schools for grades K-6. Grolier Canada is a leading operator of direct-to-home continuity programs in Canada.



## **United Kingdom**

Scholastic UK, founded in 1964, is the largest school-based book club and school-based book fair operator and a leading children's publisher in the United Kingdom. Scholastic UK also publishes magazines for teachers and supplemental educational materials, including professional books. Grolier UK is a leading operator of direct-to-home continuity programs in the United Kingdom.

## **Australia**

Scholastic Australia, founded in 1968, is the largest school-based book club and book fair operation in Australia, reaching approximately 90% of the country's primary schools. Scholastic Australia publishes quality children's books supplying the Australian trade market. Scholastic Australia also operates direct-to-home continuity programs.

## **New Zealand**

Scholastic New Zealand, founded in 1964, is the largest children's book publisher and the leading book distributor to schools in New Zealand. Through its school-based book clubs and book fairs, Scholastic New Zealand reaches approximately 90% of the country's primary schools.

## **Asia**

The Company's Asia operations primarily sell English language reference materials and local language products through a network of over 1,500 independent door-to-door sales representatives in India, Indonesia, Malaysia, the Philippines, Singapore, and Thailand. In India, the Company also operates school-based book clubs and book fairs and publishes original titles in the English and Hindi languages. In the Philippines, the Company also operates school-based book fairs, and in Malaysia, the Company operates school-based book clubs and continuity programs. In China, Scholastic operates tutorial centers that provide English language training to students.

## **Latin America**

In Latin America, the Company has operations in Mexico, Argentina and Puerto Rico. These businesses principally distribute books and educational material published by Scholastic, as well as merchandise from other publishers, through school-based book clubs and book fairs. In Puerto Rico, Scholastic also distributes Spanish language reference materials through a network of independent door-to-door sales representatives and sells educational books and educational technology programs to public and private schools.

## **Foreign Rights and Export**

The Company licenses the rights to selected Scholastic titles for translation in over 35 languages to other publishing companies around the world. The Company's export business sells educational materials, software and children's books to schools, libraries, bookstores and other book distributors in over 135 countries that are not otherwise directly serviced by Scholastic subsidiaries. The Company partners with governments and non-governmental agencies to create and distribute books to public schools in developing countries.

## **MANUFACTURING AND DISTRIBUTION**

The Company's books, magazines, software and interactive products and other materials and products are manufactured by third parties under contracts entered into through arms-length negotiations or competitive bidding. As appropriate, the Company enters into multi-year agreements that guarantee specified volume in exchange for favorable pricing terms. Paper is purchased from paper mills and other third party sources. The Company does not anticipate any difficulty in continuing to satisfy its manufacturing and paper requirements.

In the United States, the Company mainly processes and fulfills school-based book club, trade, curriculum publishing, reference and non-fiction products and export orders from its primary warehouse and distribution facility in Jefferson City, Missouri. Magazine orders are processed at the Jefferson City facility and are shipped directly from printers. The Company's distribution facility in Maumelle, Arkansas principally serves as the Company's primary packaging and fulfillment center for its continuity programs. In connection with its trade business, the Company generally outsources certain services, including invoicing, billing, returns processing and collection services, and also ships product directly



from printers to customers. School-based book fair orders are fulfilled through a network of warehouses across the country. The Company's international school-based book club, school-based book fair, trade, continuity businesses and educational operations use similar distribution systems.

## **SEASONALITY**

The Company's school-based book clubs, school-based book fairs and most of its magazines operate on a school-year basis. Therefore, the Company's business is highly seasonal. As a result, the Company's revenues in the first and third quarters of the fiscal year generally are lower than its revenues in the other two fiscal quarters. Typically, school-based book club and book fair revenues are greatest in the second quarter of the fiscal year, while revenues from the sale of instructional materials and educational technology products are highest in the first quarter. The Company experiences a loss from operations in the first and third quarters of each fiscal year.

## **COMPETITION**

The markets for children's educational, educational technology and entertainment materials are highly competitive. Competition is based on the quality and range of materials made available, price, promotion, customer service and distribution channels. Competitors include numerous other book, textbook, library, reference material and supplementary text publishers, distributors and other resellers (including over the internet) of children's books and other educational materials, national publishers of classroom and professional magazines with substantial circulation, numerous producers of television, video and film programming (many of which are substantially larger than the Company), television and cable networks, publishers of computer software and interactive products, and distributors of products and services on the internet. In the United States, competitors also include regional and local school-based book fair operators, other fundraising activities in schools, and bookstores. Competition may increase to the extent that other entities enter the market and to the extent that current competitors or new competitors develop and introduce new materials that compete directly with the products distributed by the Company or develop or expand competitive sales channels.

## **COPYRIGHT AND TRADEMARKS**

As an international publisher and distributor of books, software and other media products, Scholastic aggressively utilizes the intellectual property protections of the United States and other countries in order to maintain its exclusive rights to identify and distribute many of its products. Accordingly, SCHOLASTIC is a trademark registered in the United States and in a number of countries where the Company conducts business. The Corporation's principal operating subsidiary in the United States, Scholastic Inc., and the Corporation's international subsidiaries have registered and/or have pending applications to register in relevant territories trademarks for important services and programs. All of the Company's publications, including books, magazines, and software and interactive products, are subject to copyright protection both in the United States and internationally. The Company seeks to obtain the broadest possible intellectual property rights for its products, and because inadequate legal and technological protections for intellectual property and proprietary rights could adversely affect operating results, the Company vigorously defends those rights against infringement.

## **EMPLOYEES**

At May 31, 2007, the Company employed approximately 6,700 people in full-time jobs and 900 people in part-time jobs in the United States and approximately 2,600 people outside the United States. The number of part-time employees fluctuates during the year because significant portions of the Company's business are closely correlated with the school year. The Company believes that relations with its employees are good.



## Executive Officers

Each of the following individuals serves as an executive officer of Scholastic until the first meeting of the Corporation's Board of Directors following the Annual Meeting of Stockholders of Scholastic Corporation in September 2007 and until their successors have been elected or appointed and qualified or until such officer's earlier resignation or removal.

Name	Age	Employed by Registrant Since	Position(s) for Past Five Years
<b>Richard Robinson</b>	70	1962	Chairman of the Board (since 1982), President (since 1974) and Chief Executive Officer (since 1975).
<b>Maureen O'Connell</b>	45	2007	Executive Vice President, Chief Administrative Officer and Chief Financial Officer (since 2007). Prior to joining the Company, Executive Vice President and Chief Financial Officer of Affinion Group, Inc., an affinity marketing company (2005-2006); President and Chief Operating Officer (2003-2004) and Executive Vice President and Chief Financial and Administrative Officer (2002-2003) of Gartner, Inc., an information technology and research advisory firm; and Executive Vice President and Chief Financial Officer of Barnes & Noble, Inc. (2000-2002).
<b>Deborah A. Forte</b>	53	1983	Executive Vice President (since 1996), President, Scholastic Media (since 2006) and Scholastic Entertainment Inc. (since 2001) and Division Head, Scholastic Entertainment Inc. (1995-2001).
<b>Lisa Holton</b>	45	2005	Executive Vice President and President, Book Fairs and Trade (since 2005). Prior to joining the Company, Senior Vice President, Publisher, Global Disney Children's Books (2001-2005), and Vice President and Group Publisher of Disney Children's Books (1999-2001).
<b>Margery W. Mayer</b>	55	1990	Executive Vice President (since 1990), President, Scholastic Education (since 2002) and Executive Vice President, Learning Ventures (1998-2002).
<b>Judith A. Newman</b>	49	1993	Executive Vice President and President, Book Clubs (since 2005) and Scholastic At Home (2005-2006); Senior Vice President and President, Book Clubs and Scholastic At Home (2004-2005); and Senior Vice President, Book Clubs (1997-2004).



Name	Age	Employed by Registrant Since	Position(s) for Past Five Years
<b>Seth Radwell</b>	44	2005	Executive Vice President and President, eScholastic (since 2005) and Scholastic At Home (since 2006). Prior to joining the Company, President, Marketing & Editorial Group, Bookspan (2002-2005); and Chief Executive Officer and President, Doubleday Interactive (1999-2001).
<b>Hugh Roome</b>	55	1991	Executive Vice President (since 1996), President, International Group (since 2001) and Executive Vice President, International (2000-2001).
<b>Cynthia Augustine</b>	49	2007	Senior Vice President, Human Resources and Employee Services (since 2007). Prior to joining the Company, Senior Vice President of Talent Management for Time Warner, Inc. (2004-2005); and various positions at The New York Times Company, including Senior Vice President, Human Resources (1998 -2004) and President, Broadcast Group (2000-2004).
<b>Devereux Chatillon</b>	53	2006	Senior Vice President, General Counsel and Corporate Secretary (since 2006). Prior to joining the Company, partner at the law firm of Sonnenschein, Nath and Rosenthal, LLP (2003-2006); and various positions at Miramax Film Corp., including Executive Vice President, Miramax Books and Miramax Film Corp. (2002-2003) and Executive Vice President and General Counsel, Talk Magazine and Talk Miramax Books (1998-2002).
<b>Ernest B. Fleishman</b>	70	1989	Senior Vice President, Education and Corporate Relations (since 1989).
<b>Beth Ford</b>	43	2000	Senior Vice President, Global Operations and Information Technology (since 2002) and Senior Vice President, Global Operations (2000-2002).
<b>Heather J. Myers</b>	42	2003	Senior Vice President, Strategic Planning & Business Development (since 2003). Prior to joining the Company, an independent media & entertainment consultant (2002-2003); and from 1995-2001, various positions at Vivendi Universal (formerly Seagram Company Ltd.), including Executive Vice President/ General Manager, Universal Global e, Universal Music Group (1999-2001).



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## Available Information

The Corporation's annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and any amendments to those reports are accessible at the Investor Relations portion of its website, [scholastic.com](http://scholastic.com), by clicking on the "SEC Filings" tab and are available, without charge, as soon as reasonably practicable after such reports are electronically filed or furnished to the Securities and Exchange Commission ("SEC"). The Company also posts the dates of its upcoming scheduled financial press releases, telephonic investor calls and investor presentations on the "Calendar and Presentations" portion of its website at least five days prior to the event. The Company's investor calls are open to the public and remain available through the Company's website for at least one year thereafter.

The public may also read and copy materials that the Company files with the SEC at the SEC's Public Reference Room at 100 F Street, N.E., Washington, D.C. The public may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. The SEC also maintains an internet site, at [sec.gov](http://sec.gov), that contains reports, proxy and information statements, and other information regarding issuers that file electronically with the SEC.

## Item 1A | Risk Factors

Set forth below and elsewhere in this Annual Report on Form 10-K and in other documents that the Corporation files with the SEC are risks that should be considered in evaluating the Corporation's Common Stock, as well as risks and uncertainties that could cause the actual future results of the Company to differ from those expressed or implied in the forward-looking statements contained in this Report and in other public statements the Company makes. Additionally, because of the following risks and uncertainties, as well as other variables affecting the Company's operating results, the Company's past financial performance should not be considered an indicator of future performance.

### **If we cannot anticipate trends and develop new products or technologies responding to changing customer preferences, this could adversely affect our revenues or profitability.**

The Company operates in highly competitive markets that are subject to rapid change, including, in particular, changes in customer preferences. There are substantial uncertainties associated with the Company's efforts to develop successful educational, trade publishing, entertainment and software and interactive products and services for its customers, as well as to adapt its print materials to new technologies, including the internet. The Company makes significant investments in new products and services that may not be profitable, or whose profitability may be significantly lower than the Company has experienced historically.

### **Our financial results would suffer if we fail to meet successfully market needs in school-based book clubs and book fairs, two of our core businesses.**

The Company's school-based book clubs and book fairs are core businesses, which produce a substantial part of the Company's revenues. The Company is subject to the risk that it will not successfully develop and execute new promotional strategies for its school-based book clubs or book fairs in response to future customer trends or otherwise meet market needs in these businesses in a timely fashion, which would have an adverse effect on the Company's financial results.

### **If we fail to successfully execute our recent change in the business plan for our continuity business, it may adversely affect our financial results.**

The Company's direct-to-home continuity business was affected by the implementation of the National "Do-Not-Call Registry" legislation in 2003, which adversely affected the business and necessitated changes in marketing strategies and the development of new continuity products. In response, the Company adopted a significant change to the business plan for its direct-to-home continuity business, focusing on its more productive customers, which has, as anticipated, resulted in a decline in continuity revenues from historical levels. Recently, the Company has focused on acquiring new continuity customers through the internet and developing strategies to secure greater



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follow-on sales to such customers. The Company is subject to the risk that it will not successfully execute this plan and that the continuity business may not return to its historical levels of profitability, in which event the Company may determine that it should exit the direct-to-home continuity business, which could adversely affect the Company's financial results.

**If we fail to maintain the continuance of strong relationships with our authors, illustrators and other creative talent, as well as to develop relationships with new creative talent, our business could be adversely affected.**

The Company's business, in particular the trade publishing and media portions of the business, is highly dependent on maintaining strong relationships with the authors, illustrators and other creative talent who produce the products and services that are sold to its customers. Any overall weakening of these relationships, or the failure to develop successful new relationships, could have an adverse impact on the Company's business and financial performance.

**If we fail to adapt to new purchasing patterns or requirements, our business and financial results could be adversely affected.**

The Company's business is affected significantly by changes in purchasing patterns or trends in, as well as the underlying strength of, the educational, trade, entertainment and software markets. In particular, the Company's educational publishing businesses may be adversely affected by budgetary restraints and other changes in state educational funding as a result of new legislation or regulatory actions, both at the federal and state level, as well as changes in the procurement process, to which the Company may be unable to adapt successfully.

**The competitive pressures we face in certain of our businesses could adversely affect our financial performance and growth prospects.**

The Company is subject to significant competition, including from other educational and trade publishers and media, entertainment and internet companies, many of which are substantially larger than the Company and have much greater resources. To the extent the Company cannot meet these challenges from existing or new competitors, including in the educational publishing business, and develop new product offerings to meet customer preferences or needs, the Company's revenues and profitability could be adversely affected.

**If we are unsuccessful in implementing our corporate strategy we may not be able to maintain our historical growth.**

Continuance of the Company's historical growth rate depends upon a number of factors, including the ability of the Company to implement successfully its strategies for the respective business units, the introduction and acceptance of new products and services and expansion in the global markets that the Company serves. Difficulties, delays or failures experienced in connection with any of these factors could materially affect the future growth of the Company.

**Increases in certain operating costs and expenses, which are beyond our control and can affect significantly our profitability, could adversely affect our operating performance.**

The Company's major expense categories include employee compensation and printing, paper and distribution (such as postage, shipping and fuel) costs. The Company offers its employees competitive salaries and benefit packages in order to attract and retain the quality of employees required to grow and expand its businesses. Compensation costs are influenced by general economic factors, including those affecting costs of health insurance, post-retirement benefits and any trends specific to the employee skill sets the Company requires. In addition, the Company's reported earnings would be adversely affected by increases in pension costs due to poor investment returns or changes in pension regulations. Paper prices fluctuate based on worldwide demand and supply for paper, in general, as well as for the specific types of paper used by the Company. If there is a significant disruption in the supply of paper or increase in these costs, which would generally be beyond the control of the Company, or if the Company's strategies to try to manage these costs, including additional cost savings initiatives, are



ineffective, the Company's results of operations could be adversely affected.

**The loss of or failure to obtain rights to intellectual property material to our businesses would adversely affect our financial results.**

The Company's products generally comprise intellectual property delivered through a variety of media. The ability to achieve anticipated results depends in part on the Company's ability to defend its intellectual property against infringement, as well as the breadth of rights obtained. The Company's operating results could be adversely affected by inadequate legal and technological protections for intellectual property and proprietary rights in some jurisdictions, markets and media, and the Company's revenues could be constrained by limitations on the rights that the Company is able to secure to exploit its intellectual property in different media and distribution channels.

**Because we sell our products and services in foreign countries, changes in currency exchange rates, as well as other risks and uncertainties, could adversely affect our operations and financial results.**

The Corporation has various operating subsidiaries domiciled in foreign countries. In addition, the Company sells products and services to customers located in foreign countries where it does not have operating subsidiaries. Accordingly, the Company could be adversely affected by changes in currency exchange rates, as well as by the political and economic risks attendant to conducting business in foreign countries. These risks include the potential of political instability in developing nations where the Company is conducting business.

**Certain of our activities are subject to weather risks, which could disrupt our operations or otherwise adversely affect our financial performance.**

The Company conducts many of its businesses and maintains warehouse and office facilities in locations that are at risk of being negatively affected by severe weather events, such as hurricanes, floods or snowstorms. For example, in the fall of 2005, a series of hurricanes had a severe impact on the Gulf Coast area of the United States, closing several thousand schools, displacing several hundred thousand students and their families and, in turn, affecting the schools that took in those children. This impacted the Company's school-based book clubs, school-based book fairs, continuities and education businesses. Accordingly, the Company could be adversely affected by any future significant weather event.

**Control of the Company resides in our Chairman of the Board, President and Chief Executive Officer and other members of his family through their ownership of Class A Stock, and the holders of the Common Stock generally have no voting rights in respect of transactions requiring stockholder approval.**

The voting power of the Corporation's capital stock is vested exclusively in the holders of Class A Stock, except for the right of the holders of Common Stock to elect one-fifth of the Board of Directors and except as otherwise provided by law or as may be established in favor of any series of preferred stock that may be issued. Richard Robinson, the Chairman of the Board, President and Chief Executive Officer, and other members of the Robinson family beneficially own all of the outstanding shares of Class A Stock and are able to elect up to four-fifths of the Corporation's Board of Directors and, without the approval of the Corporation's other stockholders, to effect or block other actions or transactions requiring stockholder approval, such as a merger, sale of substantially all assets or similar transactions.

**Forward-Looking Statements:**

This Annual Report on Form 10-K contains forward-looking statements. Additional written and oral forward-looking statements may be made by the Company from time to time in SEC filings and otherwise. The Company cautions readers that results or expectations expressed by forward-looking statements, including, without limitation, those relating to the Company's future business prospects, plans, strategies, goals, revenues, operating margins, working capital, liquidity, capital needs, interest costs and income, are subject to risks and uncertainties that could cause actual results to differ materially from those indicated in the forward-looking statements, due



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to factors including those noted in this Report and other risks and factors identified from time to time in the Company's filings with the SEC.

These factors should not be construed as exhaustive or as any admission regarding the adequacy of disclosures made by the Company prior to the date hereof. The Company disclaims any intention or obligation to update or revise forward-looking statements, whether as a result of new information, future events or otherwise.

### **Item 1B | Unresolved Staff Comments**

None.

### **Item 2 | Properties**

The Company maintains its principal offices in the metropolitan New York area, where it leases approximately 600,000 square feet of space. The Company also owns or leases approximately 1.6 million square feet of office and warehouse space for its primary warehouse and distribution facility located in the Jefferson City, Missouri area. The Company's distribution facility in Maumelle, Arkansas, consisting of a 500,000 square foot main floor and a 246,000 square foot mezzanine, serves as the Company's primary packaging and fulfillment center for its continuity programs. In addition, the Company owns or leases approximately 2.8 million square feet of office and warehouse space in over 80 facilities in the United States, principally for Scholastic Book Fairs.

Additionally, the Company owns or leases approximately 1.8 million square feet of office and warehouse space in over 100 facilities in Canada, the United Kingdom, Australia, New Zealand, Asia and elsewhere around the world for its international businesses.

The Company considers its properties adequate for its current needs. With respect to the Company's leased properties, no difficulties are anticipated in negotiating renewals as leases expire or in finding other satisfactory space, if current premises become unavailable. For further information concerning the Company's obligations under its leases, see Notes 1 and 4 of Notes to Consolidated Financial Statements in Item 8, "Consolidated Financial Statements and Supplementary Data."

### **Item 3 | Legal Proceedings**

Various claims and lawsuits arising in the normal course of business are pending against the Company. The results of these proceedings are not expected to have a material adverse effect on the Company's consolidated financial position or results of operations.

### **Item 4 | Submission of Matters to a Vote of Security Holders**

During the fourth quarter of the fiscal year covered by this report, no matter was submitted to the vote of security holders, through the solicitation of proxies or otherwise.



## Part II

### Item 5 | Market for the Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

Scholastic Corporation's Common Stock, par value \$0.01 per share (the "Common Stock"), is traded on the NASDAQ Global Select Market under the symbol SCHL. Scholastic Corporation's Class A Stock, par value \$0.01 per share (the "Class A Stock"), is convertible, at any time, into Common Stock on a share-for-share basis. There is no public trading market for the Class A Stock. The table below sets forth, for the periods indicated, the quarterly high and low selling prices for the Common Stock as reported by NASDAQ.

For fiscal years ended May 31,

	2007		2006	
	High	Low	High	Low
First Quarter	\$ 30.46	\$ 24.99	\$ 39.74	\$ 35.20
Second Quarter	34.26	29.50	38.00	31.86
Third Quarter	37.08	32.63	34.66	27.33
Fourth Quarter	35.60	29.78	31.25	25.35

On June 1, 2007, Scholastic Corporation entered into an agreement with a major financial institution to repurchase \$200.0 million of its outstanding Common Stock under a "collared" Accelerated Share Repurchase Agreement (the "ASR"). Under the ASR, the Company initially received 5.1 million shares of Common Stock from the financial institution on June 28, 2007, representing the minimum number of shares to be received based on a calculation using the "cap" or high-end of the price range of the collar. The maximum number of shares of Common Stock that can be received under ASR is 6.2 million shares. The actual number of shares to be received by the Corporation from the financial institution will be determined based on the weighted average market price of the Common Stock during the four-month period after the initial execution date. For a discussion of the financing arrangement entered into by the Corporation in the connection with the ASR, see Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operation—Financing."

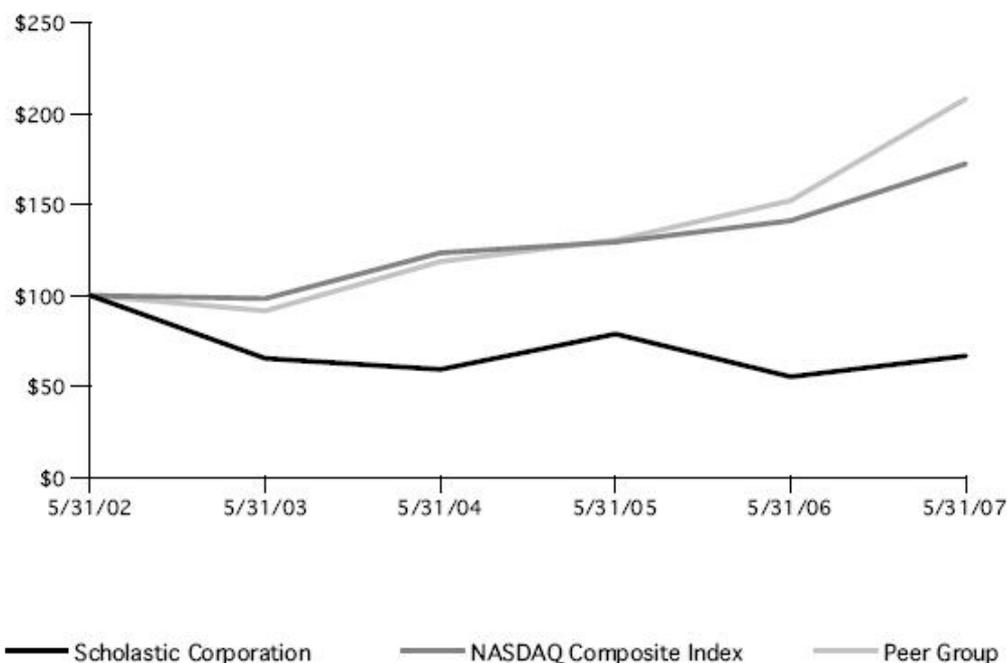
Scholastic Corporation has not paid any cash dividends since its initial public offering in February 1992 and has no current plans to pay any dividends on the Class A Stock or the Common Stock. In addition, certain of the Company's credit facilities restrict the payment of dividends. See Note 3 of Notes to Consolidated Financial Statements in Item 8, "Consolidated Financial Statements and Supplementary Data," for further information.

The number of holders of record of Class A Stock and Common Stock as of June 30, 2007 were 3 and approximately 11,100, respectively.



## Stock Price Performance Graph

The graph below provides an indicator of cumulative total stockholder returns for the Common Stock for the period May 31, 2002 to May 31, 2007 compared with the NASDAQ Composite Index and a composite peer group of publicly traded companies with which the Company competes in its principal operating segments. The members of the peer group are: The McGraw Hill Companies, John Wiley and Sons, Inc. and Pearson plc. The graph assumes a \$100 investment on June 1, 2002, together with the reinvestment of all dividends, if any. In the Company's proxy materials regarding its annual meeting of stockholders held in 2006, the peer group chosen by the Company for this graph included Reader's Digest Association, Inc., which is no longer a publicly traded company.



	5/31/02	5/31/03	5/31/04	5/31/05	5/31/06	5/31/07
Scholastic Corporation	\$ 100.00	\$ 65.41	\$ 59.34	\$ 78.84	\$ 55.31	\$ 66.76
NASDAQ Composite Index	100.00	98.31	123.42	129.37	141.08	172.42
Peer Group	100.00	91.56	118.65	130.39	152.15	208.11

The stock price performance included in this graph is not necessarily indicative of future stock price performance.



**Item 6 | Selected Financial Data**

(Amounts in millions, except per share data)

For fiscal years ended May 31,

	2007	2006	2005	2004	2003
<b>Statement of Income Data:</b>					
Total revenues	\$ 2,179.1	\$ 2,283.8	\$ 2,079.9	\$ 2,233.8	\$ 1,958.3
Cost of goods sold <sup>(1)(2)</sup>	1,005.3	1,103.1	979.0	1,086.8	882.1
Selling, general and administrative expenses <sup>(1)(4)</sup>	913.0	916.5	840.7	870.1	813.1
Bad debt expense <sup>(1)(3)</sup>	71.1	59.1	62.2	90.3	72.3
Depreciation and amortization	67.0	65.8	63.1	62.1	52.1
Operating income	122.7	139.3	134.9	121.2	125.9
Other income <sup>(5)</sup>	3.0	—	—	8.0	2.9
Interest expense, net	30.1	31.7	35.2	39.6	38.3
Net income	60.9	68.6	64.3	57.8	58.8
<b>Earnings per share:</b>					
Basic	\$ 1.43	\$ 1.65	\$ 1.61	\$ 1.47	\$ 1.50
Diluted	\$ 1.42	\$ 1.63	\$ 1.58	\$ 1.44	\$ 1.46
Weighted average shares outstanding – basic	42.5	41.6	40.0	39.4	39.1
Weighted average shares outstanding – diluted	43.0	42.2	40.8	40.1	40.1
<b>Balance Sheet Data:</b>					
Working capital	\$ 490.6	\$ 389.9	\$ 564.5	\$ 467.4	\$ 381.9
Cash and cash equivalents	22.8	205.3	110.6	17.8	58.6
Total assets	1,877.7	2,052.2	1,931.4	1,831.8	1,863.0
Long-term debt (excluding capital leases)	173.4	173.2	476.5	492.5	482.2
Total debt	239.6	502.4	501.4	516.6	635.9
Long-term capital lease obligations	59.8	61.4	63.4	63.8	58.2
Total capital lease obligations	65.3	68.9	74.4	74.0	66.8
Total stockholders' equity	1,129.0	1,049.3	937.1	845.4	762.6

(1) In fiscal 2004, the Company recorded pre-tax charges of \$25.4, or \$0.41 per diluted share, in connection with a review of its continuity business. These charges have been recorded primarily as components of Cost of goods sold of \$6.8; Selling, general and administrative expenses of \$15.2; and Bad debt expense of \$2.0. In fiscal 2005, the Company recorded additional pre-tax charges of \$3.8, or \$0.06 per diluted share, primarily related to severance costs due to the review of its continuity business, which have been recorded as a component of Selling, general and administrative expenses.

(2) In fiscal 2006, the Company recorded pre-tax costs of \$3.2, or \$0.05 per diluted share, related to the write-down of certain print reference set assets.

(3) Primarily reflects bad debt expense recorded in the continuities business. In fiscal 2006, the Company recorded pre-tax bad debt expense of \$2.9, or \$0.04 per diluted share, associated with the bankruptcy of a for-profit educational services customer.

(4) In fiscal 2004 and fiscal 2003, the Company recorded pre-tax special severance charges of \$3.3, or \$0.05 per diluted share, and \$10.9, or \$0.18 per diluted share, respectively, relating to a reduction in its work force announced in May 2003 but implemented in those periods.

(5) In fiscal 2007, the Company sold its remaining portion of an equity investment, resulting in a pre-tax gain of \$3.0, or \$0.04 per diluted share. In fiscal 2003, the Company sold a portion of this investment, resulting in a pre-tax gain of \$2.9, or \$0.05 per diluted share. In fiscal 2004, the Company recorded a pre-tax net gain of \$8.0, or \$0.13 per diluted share, in connection with the early termination of a sublease by one of its tenants.



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## Item 7 | Management's Discussion and Analysis of Financial Condition and Results of Operations

### General

The Company categorizes its businesses into four operating segments: *Children's Book Publishing and Distribution*; *Educational Publishing*; *Media, Licensing and Advertising* (which collectively represent the Company's domestic operations); and *International*. This classification reflects the nature of products and services consistent with the method by which the Company's chief operating decision-maker assesses operating performance and allocates resources.

The following discussion and analysis of the Company's financial position and results of operations should be read in conjunction with the Company's Consolidated Financial Statements and the related Notes included in Item 8, "Consolidated Financial Statements and Supplementary Data."

### Overview and Outlook

Fiscal 2007 revenues decreased 4.6% from fiscal 2006 to \$2.2 billion. Lower fiscal 2007 revenues in the Company's *Children's Book Publishing and Distribution* segment, due primarily to the prior year release of *Harry Potter and the Half-Blood Prince*, the sixth book of the seven book series, were partially offset by revenue growth in the Company's *International* and *Media, Licensing and Advertising* segments.

Operating income decreased by 11.9% to \$122.7 million in fiscal 2007 from \$139.3 million in the prior fiscal year, primarily due to the lower Harry Potter revenues and higher operating losses in the continuities business, partially offset by higher profits in the book clubs business, within the *Children's Book Publishing and Distribution* segment, as well as higher profits in each of the Company's other operating segments.

In fiscal 2008, the Company expects strong revenue and profit growth, driven by the release of *Harry Potter and the Deathly Hallows*, the final book of the series, on July 21, 2007 and an anticipated reduction in the losses in the continuities business. The Company's goals for fiscal 2008 are based on: (1) revenue and profit growth in the *Children's Book Publishing and Distribution* segment, driven principally by the release of *Harry Potter and the Deathly Hallows*, in the Company's trade business; the successful implementation of its recently announced plan to improve results in the continuities business; revenue and profit growth in school-based book fairs based on an increase in revenue per fair and improving efficiencies; and relatively flat revenues and profits in school-based book clubs; (2) modest growth in the *Educational Publishing* segment, led by sales of technology products and service revenues somewhat offset by investments in the sales force and new technology products; (3) solid growth in revenues and profits across all businesses in the *International* segment; (4) improved profits in the *Media, Licensing and Advertising* segment on modestly lower revenues; and (5) ongoing implementation of the Company's previously-announced cost savings plan, which should offset anticipated increases in postage, shipping, manufacturing and paper costs.



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## Critical Accounting Policies and Estimates

### General:

The Company's discussion and analysis of its financial condition and results of operations is based upon its consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States. The preparation of these financial statements involves the use of estimates and assumptions by management, which affect the amounts reported in the consolidated financial statements and accompanying notes. The Company bases its estimates on historical experience, current business factors and various other assumptions believed to be reasonable under the circumstances, all of which are necessary in order to form a basis for determining the carrying values of assets and liabilities. Actual results may differ from those estimates and assumptions. On an ongoing basis, the Company evaluates the adequacy of its reserves and the estimates used in calculations, including, but not limited to: collectability of accounts receivable and installment receivables; sales returns; amortization periods; pension and other post-retirement obligations; and recoverability of inventories, deferred promotion costs, deferred income taxes and tax reserves, prepublication costs, royalty advances, goodwill and other intangibles.

The following policies and account descriptions include all those identified by the Company as critical to its business operations and the understanding of its results of operations:

### Revenue recognition:

The Company's revenue recognition policies for its principal businesses are as follows:

**School-Based Book Clubs** – Revenue from school-based book clubs is recognized upon shipment of the products.

**School-Based Book Fairs** – Revenue from school-based book fairs, which are generally a week in duration, is recognized ratably as each book fair occurs.

**Continuity Programs** – The Company operates continuity programs whereby customers generally place an order to receive multiple shipments of children's books and other products over a period of time. Revenue from continuity programs is recognized at the time of shipment or, in applicable cases, upon customer acceptance. Reserves for estimated returns are established at the time of sale and recorded as a reduction to revenue.

Actual returns are charged to the reserve as received. The calculation of the reserve for estimated returns is based on historical return rates and sales patterns. Actual returns could differ from the Company's estimate. A one percentage point change in the estimated reserve for returns rate by product and media would have resulted in an increase or decrease in operating income for the year ended May 31, 2007 of approximately \$0.3 million.

**Trade** – Revenue from the sale of children's books for distribution in the retail channel is primarily recognized when title transfers to the customer, which generally is at the time of shipment, or when the product is on sale and available to the public. A reserve for estimated returns is established at the time of sale and recorded as a reduction to revenue. Actual returns are charged to the reserve as received. The calculation of the reserve for estimated returns is based on historical return rates and sales patterns. Actual returns could differ from the Company's estimate. A one percentage point change in the estimated reserve for returns rate would have resulted in an increase or decrease in operating income for the year ended May 31, 2007 of approximately \$1.8 million.

**Educational Publishing** – For shipments to schools, revenue is recognized on passage of title, which generally occurs upon receipt by the customer. Shipments to depositories are on consignment and revenue is recognized based on actual shipments from the depositories to the schools. For certain software-based products, the Company offers new customers installation and training and in such cases, revenue is recognized when installation and training are complete.



**Toy Catalog** – Revenue from the sale of children’s toys to the home through catalogs is recognized when title transfers to the customer, which is generally at the time of shipment. A reserve for estimated returns is established at the time of sale and recorded as a reduction to revenue. Actual returns are charged to the reserve as received. The calculation of the reserve for estimated returns is based on historical return rates and sales patterns. Actual returns could differ from the Company’s estimate.

**Film Production and Licensing** – Revenue from the sale of film rights, principally for the home video and domestic and foreign television markets, is recognized when the film has been delivered and is available for showing or exploitation. Licensing revenue is recorded in accordance with royalty agreements at the time the licensed materials are available to the licensee and collections are reasonably assured.

**Magazines** – Revenue is deferred and recognized ratably over the subscription period, as the magazines are delivered.

**Magazine Advertising** – Revenue is recognized when the magazine is on sale and available to the subscribers.

**Scholastic In-School Marketing** – Revenue is recognized when the Company has satisfied its obligations under the program and the customer has acknowledged acceptance of the product or service.

For the fiscal years ended May 31, 2007, 2006 and 2005, no significant changes have been made to the underlying assumptions related to the revenue recognition policy or the methodology applied.

**Accounts receivable:**

Accounts receivable are recorded net of allowances for doubtful accounts and reserves for returns. In the normal course of business, the Company extends credit to customers that satisfy predefined credit criteria. The Company is required to estimate the collectability of its receivables. Reserves for returns are based on historical return rates and sales patterns. Allowances for doubtful accounts are established through the evaluation of accounts receivable agings and prior collection experience to estimate the ultimate collectability of these receivables. A one percentage point change in the estimated bad debt reserve rates, which are applied to the accounts receivable agings, would have resulted in an increase or decrease in operating income for the year ended May 31, 2007 of approximately \$2.8 million.

**Inventories:**

Inventories, consisting principally of books, are stated at the lower of cost, using the first-in, first-out method, or market. The Company records a reserve for excess and obsolete inventory based upon a calculation using the historical usage rates and sales patterns of its products. The impact of a one percentage point change in the obsolescence reserve would have resulted in an increase or decrease in operating income for the year ended May 31, 2007 of approximately \$4.7 million.

**Deferred promotion costs:**

Deferred promotion costs represent all direct costs associated with direct mail, co-op, internet and telemarketing promotions, including incentive product costs incurred to acquire customers in the Company’s continuity and magazine businesses. Promotional costs are deferred when incurred and amortized in the proportion that current revenues bear to estimated total revenues. The Company regularly evaluates the profitability of each continuity promotion over its life cycle based on historical and forecasted activity and adjusts the carrying value accordingly. Except as discussed above, all other advertising costs are expensed as incurred. A one percentage point change in forecasted continuity margin would result in an increase or decrease in operating income for the year ended May 31, 2007 of approximately \$0.2 million.

**Leases:**

Lease agreements are evaluated to determine whether they are capital or operating leases in accordance with Statement of Financial Accounting Standards (“SFAS”) No. 13, “Accounting For Leases,” as amended (“SFAS No. 13”). When substantially all of the risks and benefits of property ownership have been transferred



to the Company, as determined by the test criteria in SFAS No. 13, the lease then qualifies as a capital lease.

Capital leases are capitalized at the lower of the net present value of the total amount of rent payable under the leasing agreement (excluding finance charges) or the fair market value of the leased asset. Capital lease assets are depreciated on a straight-line basis, over a period consistent with the Company's normal depreciation policy for tangible fixed assets, but generally not exceeding the lease term. Interest charges are expensed over the period of the lease in relation to the carrying value of the capital lease obligation.

Rent expense for operating leases, which may include free rent or fixed escalation amounts in addition to minimum lease payments, is recognized on a straight-line basis over the duration of each lease term.

**Prepublication costs:**

The Company capitalizes the art, prepress, editorial and other costs incurred in the creation of the master copy of a book or other media (the "prepublication costs"). Prepublication costs are amortized on a straight-line basis over a three- to seven-year period based on expected future revenues. The Company regularly reviews the recoverability of the capitalized costs.

**Royalty advances:**

Royalty advances are capitalized and expensed as related revenues are earned or when future recovery appears doubtful. The Company records a reserve for the recoverability of its outstanding advances to authors based primarily upon historical earndown experience.

**Goodwill and other intangibles:**

Goodwill and other intangible assets with indefinite lives are not amortized and are reviewed for impairment annually, or more frequently if impairment indicators arise. With regard to goodwill, the Company compares the estimated fair value of its identified reporting units, which are also the Company's operating segments, to the carrying value of the net assets. For each of the reporting units, the estimated fair value is determined utilizing the expected present value of the projected future cash flows of the units.

With regard to other intangibles with indefinite lives, the Company determines the fair value by asset, which is then compared to its carrying value. Intangible assets with definite lives consist principally of customer lists and covenants not to compete. Customer lists are amortized on a straight-line basis over a five-year period, while covenants not to compete are amortized on a straight-line basis over their contractual term.

**Other noncurrent liabilities:**

All of the rate assumptions discussed below impact the Company's calculations of its pension and post-retirement obligations. The rates applied by the Company are based on the portfolios' past average rates of return, discount rates and actuarial information. Any change in market performance, interest rate performance, assumed health care costs trend rate or compensation rates could result in significant changes in the Company's pension and post-retirement obligations.

**Pension obligations** – Scholastic Corporation and certain of its subsidiaries have defined benefit pension plans covering the majority of their employees who meet certain eligibility requirements. The Company's pension plans and other post-retirement benefits are accounted for using actuarial valuations required by SFAS No. 87, "Employers' Accounting for Pensions," and SFAS No. 106, "Employers' Accounting for Postretirement Benefits Other Than Pensions." In September 2006, the Financial Accounting Standards Board (the "FASB") released SFAS No. 158, "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans, an amendment of SFAS No. 87, 88, 106, and 132(R)" ("SFAS No. 158").

On May 31, 2007, the Company adopted the recognition and disclosure provisions of SFAS No. 158, which required the Company to recognize the funded status of its pension plans in its May 31, 2007 consolidated balance sheet, with a corresponding adjustment to accumulated other comprehensive



income, net of taxes. The adjustment to accumulated other comprehensive income at adoption represents the net unrecognized actuarial losses (gains) and unrecognized prior service costs under the Company's pension plans and other post-retirement benefits. These amounts will be subsequently recognized as net periodic pension cost pursuant to the Company's historical accounting policy for amortizing such amounts. Further, actuarial gains and losses that arise in subsequent periods and are not recognized as net periodic pension cost or net periodic post-retirement benefit cost in the same periods will be recognized as a component of comprehensive income. Those amounts will be subsequently recognized as a component of net periodic pension cost or net periodic post-retirement benefit cost on the same basis as the amounts recognized in accumulated other comprehensive income (loss) at the adoption of SFAS No. 158.

The incremental effect of adopting the provisions of SFAS No. 158 on the Company's consolidated balance sheet at May 31, 2007 was a reduction in stockholders' equity of \$15.7 million, net of tax. The adoption of SFAS No. 158 had no effect on the Company's results of operations or cash flows for the year ended May 31, 2007, or for any prior period presented, and it will not have any effect on the Company's results of operations or cash flows in future periods.

The Company's pension calculations are based on three primary actuarial assumptions: the discount rate, the long-term expected rate of return on plan assets and the anticipated rate of compensation increases. The discount rate is used in the measurement of the projected, accumulated and vested benefit obligations and the service and interest cost components of net periodic pension costs. The long-term expected return on plan assets is used to calculate the expected earnings from the investment or reinvestment of plan assets. The anticipated rate of compensation increase is used to estimate the increase in compensation for participants of the plan from their current age to their assumed retirement age. The estimated compensation amounts are used to determine the benefit obligations and the service cost. A one percentage point change in the discount rate and expected long-term return on plan assets would have resulted in an increase or decrease in operating income for the year ended May 31, 2007 of approximately \$0.1 million and \$1.4 million, respectively. Pension benefits in the cash balance plan for employees located in the United States are based on formulas in which the employees' balances are credited monthly with interest based on the average rate for one-year United States Treasury Bills plus 1%. Contribution credits are based on employees' years of service and compensation levels during their employment period.

**Other post-retirement benefits** – Scholastic Corporation provides post-retirement benefits, consisting of healthcare and life insurance benefits, to retired United States-based employees. A majority of these employees may become eligible for these benefits if they reach normal retirement age while working for the Company. The post-retirement medical plan benefits are funded on a pay-as-you-go basis, with the Company paying a portion of the premium and the employee paying the remainder. The Company follows SFAS No. 106, "Employers' Accounting for Postretirement Benefits Other than Pensions," in calculating the existing benefit obligation, which is based on the discount rate and the assumed health care cost trend rate. The discount rate is used in the measurement of the projected and accumulated benefit obligations and the service and interest cost components of net periodic post-retirement benefit cost. The assumed health care cost trend rate is used in the measurement of the long-term expected increase in medical claims. A one percentage point change in the discount rate and the medical cost trend rate would have resulted in an increase or decrease in operating income for the year ended May 31, 2007 of approximately \$0.1 million and \$0.2 million, respectively.

**Stock-based compensation** – On June 1, 2006, the Company adopted SFAS No. 123 (revised 2004) "Share-Based Payment" ("SFAS No. 123R"). SFAS No. 123R requires companies to measure the cost of services received in exchange for an award of equity instruments based on the grant-date fair value of the



award. That cost is recognized over the vesting period during which an employee is required to provide service in exchange for the award. The Company adopted SFAS No. 123R using the modified-prospective application method and, accordingly, recognizes compensation cost for stock-based compensation for all new or modified grants after the date of adoption. In addition, the Company recognizes the unvested portion of the grant-date fair value of awards granted prior to the adoption based on the fair values previously calculated for disclosure purposes. The fair value of each option grant is estimated on the date of grant using the Black-Scholes option-pricing model. The determination of the assumptions used in the Black-Scholes model requires management to make significant judgments and estimates. The use of different assumptions and estimates in the Black-Scholes option pricing model could have a material impact on the estimated fair value of option grants and the related expense. The risk-free interest rate is based on a U.S. Treasury rate in effect on the date of grant with a term equal to the expected life. The expected term is determined based on historical employee exercise and post-vesting termination behavior. The expected dividend yield is based on the history of the Company, which has never declared a cash dividend since its public offering in 1992 and has no plans to do so. When calculating expected stock price volatility, the Company utilizes the information for the preceding ten-year period.

Management has discussed the development and selection of these critical accounting policies with the Audit Committee of the Corporation's Board of Directors. The Audit Committee has reviewed the Company's disclosure relating to the policies described in this Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations."



## Results of Operations

(\$ amounts in millions, except per share data)

For fiscal years ended May 31,

	2007		2006		2005	
	\$	% <sup>(1)</sup>	\$	% <sup>(1)</sup>	\$	% <sup>(1)</sup>
<b>Revenues:</b>						
Children's Book Publishing and Distribution	1,155.3	53.0	1,304.0	57.1	1,152.5	55.4
Educational Publishing	412.7	18.9	416.1	18.2	404.6	19.5
Media, Licensing and Advertising	162.5	7.5	151.6	6.7	133.1	6.4
International	448.6	20.6	412.1	18.0	389.7	18.7
<b>Total revenues</b>	<b>2,179.1</b>	<b>100.0</b>	<b>2,283.8</b>	<b>100.0</b>	<b>2,079.9</b>	<b>100.0</b>
<b>Cost of goods sold (exclusive of depreciation)<sup>(2)</sup></b>	<b>1,005.3</b>	<b>46.1</b>	<b>1,103.1</b>	<b>48.3</b>	<b>979.0</b>	<b>47.1</b>
<b>Selling, general and administrative expenses<sup>(3)</sup></b>	<b>913.0</b>	<b>41.9</b>	<b>916.5</b>	<b>40.1</b>	<b>840.7</b>	<b>40.4</b>
<b>Bad debt expense<sup>(4)</sup></b>	<b>71.1</b>	<b>3.3</b>	<b>59.1</b>	<b>2.6</b>	<b>62.2</b>	<b>3.0</b>
<b>Depreciation and amortization</b>	<b>67.0</b>	<b>3.1</b>	<b>65.8</b>	<b>2.9</b>	<b>63.1</b>	<b>3.0</b>
<b>Operating income</b>	<b>122.7</b>	<b>5.6</b>	<b>139.3</b>	<b>6.1</b>	<b>134.9</b>	<b>6.5</b>
<b>Other income<sup>(5)</sup></b>	<b>3.0</b>	<b>0.2</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>
<b>Interest income</b>	<b>2.6</b>	<b>0.1</b>	<b>3.5</b>	<b>0.1</b>	<b>1.0</b>	<b>—</b>
<b>Interest expense</b>	<b>32.7</b>	<b>1.5</b>	<b>35.2</b>	<b>1.5</b>	<b>36.2</b>	<b>1.7</b>
<b>Earnings before income taxes</b>	<b>95.6</b>	<b>4.4</b>	<b>107.6</b>	<b>4.7</b>	<b>99.7</b>	<b>4.8</b>
<b>Net income</b>	<b>60.9</b>	<b>2.8</b>	<b>68.6</b>	<b>3.0</b>	<b>64.3</b>	<b>3.1</b>
<b>Earnings per share:</b>						
Basic	1.43		1.65		1.61	
Diluted	1.42		1.63		1.58	

(1) Represents percentage of total revenues.

(2) In fiscal 2006, the Company recorded pre-tax costs of \$3.2, or \$0.05 per diluted share, related to the write-down of certain print reference set assets.

(3) In fiscal 2005, the Company recorded pre-tax charges of \$3.8, or \$0.06 per diluted share, primarily related to severance costs resulting from a prior year review of its continuity business, which have been recorded as a component of Selling, general and administrative expenses.

(4) Bad debt expense primarily relates to the continuity business included in the *Children's Book Publishing and Distribution* segment. In fiscal 2006, the Company recorded pre-tax bad debt expense of \$2.9, or \$0.04 per diluted share, associated with the bankruptcy of a customer included in the *Educational Publishing* segment.

(5) In fiscal 2007, the Company sold an equity investment, resulting in a pre-tax gain of \$3.0, or \$0.04 per diluted share.



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## Results of Operations – Consolidated

Revenues for fiscal 2007 decreased 4.6%, or \$104.7 million, to \$2,179.1 million, as compared to \$2,283.8 million in fiscal 2006. This decrease related primarily to \$148.7 million in lower revenues from the *Children's Book Publishing and Distribution* segment principally due to the fiscal 2006 release of *Harry Potter and the Half-Blood Prince*, the sixth book in the seven-book series, partially offset by higher revenues from the *International* and *Media, Licensing and Advertising* segments, which increased by \$36.5 million and \$10.9 million, respectively. Revenues for fiscal 2006 increased 9.8%, or \$203.9 million, as compared to \$2,079.9 million in fiscal 2005 due to revenue growth in each of the Company's four operating segments, led by the *Children's Book Publishing and Distribution* segment, which grew by \$151.5 million, primarily from the higher Harry Potter revenues.

Cost of goods sold for fiscal 2007 decreased to \$1,005.3 million, or 46.1% of revenues, compared to \$1,103.1 million, or 48.3% of revenues, in the prior fiscal year. This decrease was primarily due to higher costs related to the Harry Potter release in fiscal 2006. In fiscal 2006, Cost of goods sold included \$3.2 million related to the write-down of certain print reference set assets, which was included in the *Educational Publishing* segment. In fiscal 2006, Cost of goods sold increased by 12.7%, or \$124.1 million, as compared to \$979.0 million, or 47.1% of revenues, in fiscal 2005, primarily due to the fiscal 2006 Harry Potter release.

Selling, general and administrative expenses decreased by \$3.5 million to \$913.0 million in fiscal 2007 from \$916.5 million in fiscal 2006 due to reduced employee and employee-related expenses, as savings from the Company's previously announced cost savings plan more than offset higher stock-based compensation expense, primarily due to the adoption of SFAS No. 123R, and severance costs, which increased by \$2.7 million and \$1.8 million, respectively, in fiscal 2007 compared to the prior fiscal year. As a percentage of revenue, Selling, general and administrative expenses were 41.9% in fiscal 2007, 40.1% in fiscal 2006, and 40.4% in fiscal 2005 with the lower level in fiscal 2006 primarily due to the revenue benefit of the Harry Potter release in that year without a corresponding increase in related expense. In fiscal 2005, the Company recorded certain charges in connection with a review of its continuity business ("Continuity charges"), of which \$3.8 million was recorded as a component of Selling, general and administrative expense.

Bad debt expense for fiscal 2007 increased to \$71.1 million, or 3.3% of revenues, compared to \$59.1 million, or 2.6% of revenues, in the prior fiscal year. This increase was primarily due to higher bad debt in the Company's continuity business. Bad debt expense for fiscal 2006 decreased by \$3.1 million, as compared to \$62.2 million, or 3.0% of revenues, in the prior fiscal year. This decrease was primarily due to lower bad debt in the Company's continuity business partially offset by bad debt expense of \$2.9 million associated with the bankruptcy of a for-profit educational services customer in the *Educational Publishing* segment.

Depreciation and amortization expense for fiscal 2007 increased to \$67.0 million, compared to \$65.8 million in fiscal 2006, which increased by \$2.7 million as compared to \$63.1 million in fiscal 2005. These increases were principally associated with the depreciation of information technology software.

The resulting operating income for fiscal 2007 decreased by \$16.6 million, or 11.9%, to \$122.7 million, as compared to \$139.3 million in the prior fiscal year. This decrease reflected \$45.4 million in lower operating income from the *Children's Book Publishing and Distribution* segment, partially offset by increases of \$10.8 million, \$7.2 million and \$5.7 million in the *International*, *Educational Publishing* and *Media, Licensing and Advertising* segments, respectively, as compared to the prior fiscal year. In fiscal 2006, operating income increased by \$4.4 million, or 3.3%, compared to \$134.9 million in the prior fiscal year. This improvement reflected \$20.7



million in higher operating income from the *Children's Book Publishing and Distribution* segment, partially offset by decreases in the *Educational Publishing and International* segments, as compared to the prior fiscal year, of \$8.9 million and \$7.6 million, respectively.

In fiscal 2007, the Company recorded \$3.0 million in Other income, representing a gain from the sale of an equity investment in a French publishing company.

Interest income for fiscal 2007 decreased to \$2.6 million, compared to \$3.5 million in fiscal 2006, reflecting the use of excess cash balances for the repayment upon maturity of the Corporation's 5.75% senior, unsecured notes due January 15, 2007 ("5.75% Notes due 2007"). Interest income in fiscal 2006 increased by \$2.5 million from \$1.0 million in fiscal 2005, primarily due to higher average cash balances.

Interest expense for fiscal 2007 decreased by \$2.5 million to \$32.7 million, as compared to \$35.2 million in fiscal 2006, due to the repayment of \$258.0 million of the 5.75% Notes due 2007 that remained outstanding at maturity in January 2007. Interest expense for fiscal 2006 decreased by \$1.0 million, as compared to \$36.2 million in fiscal 2005.

The Company's effective tax rates were 36.3%, 36.25% and 35.5% for fiscal 2007, 2006 and 2005, respectively, with the increases primarily due to higher effective state and local tax rates.

Net income decreased by \$7.7 million, or 11.2%, to \$60.9 million in fiscal 2007, from \$68.6 million in fiscal 2006, which increased by \$4.3 million, or 6.7%, from \$64.3 million in fiscal 2005. The basic and diluted earnings per share of Class A Stock and Common Stock were \$1.43 and \$1.42, respectively, in fiscal 2007, \$1.65 and \$1.63, respectively, in fiscal 2006, and \$1.61 and \$1.58, respectively, in fiscal 2005.

## Results of Operations – Segments

### CHILDREN'S BOOK PUBLISHING AND DISTRIBUTION

(\$ amounts in millions)

	2007	2006	2005
Revenue	\$ 1,155.3	\$ 1,304.0	\$ 1,152.5
Operating income	68.8	114.2	93.5 <sup>(1)</sup>
Operating margin	6.0%	8.8%	8.1%

(1) Includes the portion of the Continuity charges related to this segment of approximately \$4.

Revenues in the *Children's Book Publishing and Distribution* segment accounted for 53.0% of the Company's revenues in fiscal 2007, 57.1% in fiscal 2006 and 55.4% in fiscal 2005. In fiscal 2007, segment revenues decreased by \$148.7 million, or 11.4%, to \$1,155.3 million from \$1,304.0 million in the prior fiscal year. This decrease was primarily due to a \$169.2 million decline in revenues from the Company's trade business compared to the prior fiscal year, which reflected the release of *Harry Potter and the Half-Blood Prince*, the sixth book in the series, in July 2005. This decline was partially offset by a \$24.8 million increase in continuity program revenues as compared to the prior fiscal year. In fiscal 2006, segment revenues increased by \$151.5 million, or 13.1%, from \$1,152.5 million in fiscal 2005. This increase was primarily due to higher revenues in the Company's trade business, which rose by \$171.7 million driven by the fiscal 2006 Harry Potter release.

Revenues from school-based book fairs accounted for 34.1% of segment revenues in fiscal 2007, compared to 29.5% in fiscal 2006 and 31.5% in fiscal 2005. In fiscal 2007, school-based book fair revenues increased by 2.3%, or \$8.9 million, to \$393.7 million compared to \$384.8 million in fiscal 2006, which had increased by 6.1%, or \$22.2 million, from \$362.6 million in fiscal 2005. The revenue increases over both periods were primarily due to growth in revenue per fair caused by better product offerings.



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Revenues from the sale of interactive products at school-based book fairs, which totaled \$19.3 million, \$11.8 million and \$15.9 million in fiscal years 2007, 2006 and 2005, respectively, are reported in the *Media, Licensing and Advertising* segment, as the Company reallocated the revenue to the segment originating the products from the segment that sold the product.

School-based book club revenues accounted for 31.2% of segment revenues in fiscal 2007, compared to 28.7% in fiscal 2006 and 34.4% in fiscal 2005. In fiscal 2007, school-based book club revenues decreased by 3.5%, or \$13.2 million, to \$360.7 million as compared to fiscal 2006, primarily due to the previously-announced elimination of the *Troll/Carnival* and *Trumpet* book clubs in the fall of 2006. The elimination of these smaller, less efficient clubs did not have a more significant impact on segment revenues due to the Company's successful implementation of its plan to migrate customers from these clubs to its core Scholastic-branded clubs. In fiscal 2006, school-based book club revenues declined by 5.8%, or \$23.0 million, to \$373.9 million as compared to fiscal 2005, primarily due to a lower number of orders from the *Troll/Carnival* and *Trumpet* clubs, which resulted from the Company's promotional strategy to begin shifting customers from these clubs to its larger core clubs. Revenues from the sale of interactive products sold through school-based book clubs, which totaled \$11.3 million, \$10.4 million and \$7.9 million in fiscal years 2007, 2006 and 2005, respectively, are reported in the *Media, Licensing and Advertising* segment, due to the segment reallocations, as defined above.

Continuity revenues accounted for 18.8% of segment revenues in fiscal 2007, compared to 14.8% in fiscal 2006 and 18.4% in fiscal 2005. Revenues from the continuity business in fiscal 2007 increased by 12.9%, or \$24.8 million, to \$217.5 million as compared to fiscal 2006, principally resulting from new customers in direct-to-home continuity programs acquired through web-based sales initiatives. Fiscal 2006 revenues decreased by 9.1%, or \$19.4 million, to \$192.7 million as compared to fiscal 2005, consistent with the Company's previously announced plan for this business to focus on its more productive customers.

The trade distribution channel accounted for 15.9% of segment revenues in fiscal 2007, compared to 27.0% in fiscal 2006 and 15.7% in fiscal 2005. Trade revenues decreased to \$183.4 million in fiscal 2007 compared to \$352.6 million in fiscal 2006, principally due to a decline in Harry Potter revenues of approximately \$175 million as compared to the prior fiscal year, which included the release of *Harry Potter and the Half-Blood Prince*. In fiscal 2006, trade revenues increased by \$171.7 million from \$180.9 million in fiscal 2005, principally due to the higher Harry Potter revenues in fiscal 2006. Trade revenues for Harry Potter were approximately \$20 million, \$195 million and \$20 million in fiscal 2007, 2006 and 2005, respectively.

Segment operating income in fiscal 2007 declined by \$45.4 million, or 39.8%, to \$68.8 million, compared to \$114.2 million in fiscal 2006. This decline was principally attributable to lower operating results both in the Company's trade business, primarily due to the lower Harry Potter revenues, and in the Company's continuity businesses, due to higher promotional costs and bad debt expense in the direct-to-home portion of this business. This decline was partially offset by improved operating results in the school-based book clubs business due to reduced promotional costs and fulfillment efficiencies that resulted from the Company's cost reduction programs, including the elimination of the *Troll/Carnival* and *Trumpet* book clubs.

In fiscal 2006, segment operating income improved by \$20.7 million, or 22.1%, from \$93.5 million in fiscal 2005, principally due to better operating results for the trade business, driven by the impact of higher Harry Potter revenues. This improvement was partially offset by lower operating results in both the school-based book club and continuity businesses due to decreases in revenues and increased promotional costs. In fiscal 2005, segment operating income included Continuity charges of approximately \$4 million.



The following highlights the results of the direct-to-home portion of the Company's continuity programs, which consists primarily of the business formerly operated by Grolier and included in the *Children's Book Publishing and Distribution* segment.

Direct-to-home continuity

(\$ amounts in millions)

	2007	2006	2005
Revenue	\$ 156.0	\$ 134.9	\$ 147.5
Operating income (loss)	(29.3)	(13.6)	(2.8) <sup>(1)</sup>
Operating margin	*	*	*

\* not meaningful

(1) Includes the direct-to-home portion of the Continuity charges related to this segment of approximately \$4.

In fiscal 2007, revenues from the direct-to-home portion of the Company's continuity business increased to \$156.0 million from \$134.9 million in fiscal 2006, primarily due to new customers acquired through web-based sales initiatives. Revenues for fiscal 2006 decreased by \$12.6 million from \$147.5 million in fiscal 2005, as the Company focused on its more productive customers in this business.

The direct-to-home continuity business operating loss was \$29.3 million in fiscal 2007, compared to \$13.6 million in fiscal 2006. The operating loss in fiscal 2007 was larger as compared to fiscal 2006 despite the corresponding revenue increase between the periods substantially due to higher promotion amortization, which increased by \$21.0 million, resulting from weakness in follow-on promotions, and higher bad debt expense, which increased by \$11.1 million, compared to the prior year. In fiscal 2006, the operating loss increased by \$10.8 million from \$2.8 million in fiscal 2005 due to decreased revenue and higher promotion amortization. In fiscal 2005, the operating loss included Continuity charges of approximately \$4 million.

Excluding the direct-to-home continuity business, segment revenues in fiscal 2007 were \$999.3 million, as compared to \$1,169.1 million in fiscal 2006 and \$1,005.0 million in fiscal 2005, and segment operating income in fiscal 2007 was \$98.1 million, compared to \$127.8 million in fiscal 2006 and \$96.3 million in fiscal 2005.

## EDUCATIONAL PUBLISHING

(\$ amounts in millions)

	2007	2006	2005
Revenue	\$ 412.7	\$ 416.1	\$ 404.6
Operating income	76.8	69.6(1)	78.5
Operating margin	18.6%	16.7%	19.4%

(1) Includes \$3.2 of costs related to the write-down of certain print reference set assets and bad debt expense of \$2.9 related to the bankruptcy of a customer.

Revenues in the *Educational Publishing* segment accounted for 18.9% of the Company's revenues in fiscal 2007, compared to 18.2% in fiscal 2006 and 19.5% in fiscal 2005. In fiscal 2007, segment revenues decreased by \$3.4 million to \$412.7 million from \$416.1 million in the prior fiscal year. Revenues from sales of educational technology products, which includes the Company's *READ 180*<sup>®</sup> reading intervention program, increased by \$20.0 million, but were more than offset by lower revenues from the balance of the segment, including an \$18.6 million decrease in paperback collections and library publishing revenues. The \$11.5 million increase in *Educational Publishing* revenues in fiscal 2006 compared to fiscal 2005 was primarily due to higher revenues from sales of educational technology products.

Segment operating income in fiscal 2007 increased by \$7.2 million, or 10.3%, to \$76.8 million, as compared to \$69.6 million in the prior fiscal year, reflecting the higher revenues from sales of educational technology products, which have relatively higher margins. Fiscal 2006 segment results included \$3.2 million of costs primarily due to the accelerated amortization of prepublication costs related to the Company's decision not to update certain print reference sets in response to increased use of internet-based reference products and \$2.9 million of bad debt expense related to the bankruptcy of a for-profit educational services customer.

In fiscal 2006, segment operating income decreased by \$8.9 million, or 11.3%, from \$78.5 million in fiscal 2005, primarily due to increased costs related to additional sales and technology support staff in connection with the Company's educational technology products, particularly an upgraded *Read 180 Enterprise Edition*.



**MEDIA , LICENSING AND ADVERTISING**

(\$ amounts in millions)

	2007	2006	2005
Revenue	\$ 162.5	\$ 151.6	\$ 133.1
Operating income	16.0	10.3	11.0
Operating margin	9.8%	6.8%	8.3%

Revenues in the *Media, Licensing and Advertising* segment accounted for 7.5% of the Company's revenues in fiscal 2007, 6.7% in fiscal 2006 and 6.4% in fiscal 2005. In fiscal 2007, segment revenues improved by \$10.9 million, or 7.2%, to \$162.5 million from \$151.6 million in fiscal 2006. This improvement was primarily due to a \$15.4 million increase in revenues from sales of software and interactive products, primarily through the Company's school-based book fairs and book clubs, and a \$3.1 million increase in consumer magazine revenues, partially offset by a decline of \$8.5 million in television programming revenue as fewer episodes of *Maya & Miguel* and *Time Warp Trio* were produced and delivered during fiscal 2007. The \$18.5 million increase in *Media, Licensing and Advertising* revenues in fiscal 2006 compared to fiscal 2005 was primarily due to higher revenues from sales of software and new interactive products and from consumer magazines of \$6.7 million and \$5.0 million, respectively.

Segment operating income in fiscal 2007 increased to \$16.0 million, as compared to \$10.3 million in the prior fiscal year, primarily due to the higher revenues from sales of software and interactive products. In fiscal 2006, segment operating income decreased by \$0.7 million, or 6.4%, from \$11.0 million in fiscal 2005. This decrease occurred despite higher revenues due in part to higher production costs associated with the delivery of certain television programming.

**INTERNATIONAL**

(\$ amounts in millions)

	2007	2006	2005
Revenue	\$ 448.6	\$ 412.1	\$ 389.7
Operating income	33.5	22.7	30.3
Operating margin	7.5%	5.5%	7.8%

Revenues in the *International* segment accounted for 20.6% of the Company's revenues in fiscal 2007, 18.0% in fiscal 2006 and 18.7% in fiscal 2005. In fiscal 2007, segment revenues increased by \$36.5 million, or 8.9%, to \$448.6 million from \$412.1 million in the prior fiscal year. This increase was due to the favorable impact of foreign currency exchange rates of \$19.4 million, as well as local currency revenue growth in all of the Company's international locations. The \$22.4 million increase in *International* revenues in fiscal 2006 compared to fiscal 2005 was primarily due to higher local currency revenue growth in Asia and Australia equivalent to \$7.1 million and \$5.3 million, respectively.

Segment operating income in fiscal 2007 increased by \$10.8 million, or 47.6%, to \$33.5 million as compared to \$22.7 million in the prior fiscal year, primarily due to higher operating results in all of the Company's international locations. In fiscal 2006, segment operating income decreased by \$7.6 million from \$30.3 million in fiscal 2005, substantially due to lower operating results in the United Kingdom.

**Liquidity and Capital Resources**

Cash and cash equivalents were \$22.8 million at May 31, 2007, compared to \$205.3 million at May 31, 2006 and \$110.6 million at May 31, 2005. The decrease of \$182.5 million from May 31, 2006 to May 31, 2007 reflects the use of excess cash balances for the repayment of the 5.75% Notes due 2007 at maturity on January 15, 2007. The \$94.7 million increase of Cash and cash equivalents from May 31, 2005 to May 31, 2006 primarily reflects receipts from sales of *Harry Potter and the Half-Blood Prince*, which was released in July 2005.



Net cash provided by operating activities decreased by \$30.3 million to \$217.1 million in fiscal 2007 compared to \$247.4 million in fiscal 2006. This decrease was primarily related to lower Accounts payable, Other accrued expenses and Accrued royalties, primarily as a result of lower company-wide spending and a reduction in accrued expenses from the higher levels associated with the fiscal 2006 Harry Potter release. In addition, Accounts receivable rose due to increased sales of technology products in the fourth quarter of fiscal 2007. These factors were partially offset by a reduction in inventory levels due to more effective inventory management in school-based book clubs and fairs as well as the Company's trade business.

Net cash used in investing activities decreased by \$16.1 million to \$144.7 million in fiscal 2007 from \$160.8 million in fiscal 2006, primarily related to a decline in Additions to property, plant and equipment. This decline was substantially related to prior fiscal year information technology spending, when the Company implemented a new computer-based order entry, customer service, accounts receivable and collection system.

Net cash used in financing activities was \$243.9 million in fiscal 2007 as compared to net cash provided by financing activities of \$19.8 million in fiscal 2006. The change was primarily due to the repurchase on the open market of \$36.0 million of the 5.75% Notes due 2007 during fiscal 2007, the repayment of the balance of \$258.0 million of the 5.75% Notes due 2007 that remained outstanding, in addition to \$7.4 million of accrued interest thereon, at maturity.

Due to the seasonality of its businesses, as discussed in Item 1, "Business — Seasonality," the Company typically experiences negative cash flow in the June through October time period. As a result of the Company's business cycle, seasonal borrowings have historically increased during June, July and August, have generally peaked in September and October, and have declined to their lowest levels in May.

The Company's operating philosophy is to use cash provided from operating activities to create value by paying down debt, to reinvest in existing businesses and, from time to time, to make acquisitions that will complement its portfolio of businesses. The Company believes that funds generated by its operations and funds available under its current or new credit facilities will be sufficient to finance its short- and long-term capital requirements.

The Company believes it has adequate access to capital to finance its on going operating needs and to repay its debt obligations as they become due. As of May 31, 2007, the Company was rated BB by Standard & Poor's Rating Services and Ba1 by Moody's Investors Service. Under prevailing market conditions, the Company believes that these ratings afford it adequate access to the public and private markets for debt.

The following table summarizes, as of May 31, 2007, the Company's contractual cash obligations by future period (see Notes 3 and 4 of Notes to Consolidated Financial Statements in Item 8, "Consolidated Financial Statements and Supplementary Data"):

Contractual Obligations	Payments Due by Period					Total
	1 Year or Less	Years 2-3	Years 4-5	After Year 5		
Minimum print quantities	\$ 37.7	\$ 69.5	\$ 64.1	\$ 287.2	\$ 458.5	
Royalty advances	8.0	6.5	0.4	—	14.9	
Lines of credit and short-term debt <sup>(1)</sup>	66.2	—	—	—	66.2	
Capital leases <sup>(1)</sup>	11.2	18.5	11.5	212.6	253.8	
Long-term debt <sup>(1)</sup>	8.4	16.8	16.8	182.4	224.4	
Pension and post-retirement plans	13.6	27.3	27.9	71.3	140.1	
Operating leases	37.5	47.9	31.5	69.0	185.9	
<b>Total</b>	<b>\$ 182.6</b>	<b>\$ 186.5</b>	<b>\$ 152.2</b>	<b>\$ 822.5</b>	<b>\$ 1,343.8</b>	

(1) Includes principal and interest.



## Financing

In January 2002, the Corporation issued the 5.75% Notes due 2007 in the aggregate principal amount of \$300 million. The 5.75% Notes due 2007 were senior unsecured obligations with interest payable semi-annually on July 15 and January 15 of each year. The Company repurchased \$6.0 million and \$36.0 million of these notes in the open market in fiscal 2006 and fiscal 2007, respectively. The remaining outstanding principal balance of \$258.0 million was repaid at maturity on January 15, 2007.

On March 31, 2004, the Corporation, along with its principal operating subsidiary, Scholastic Inc., obtained a \$190 million revolving credit facility, which was scheduled to expire in 2009 (the "Credit Agreement"). The interest rate charged for all loans made under the Credit Agreement was, at the election of the borrower, based on the bank's prime rate or, alternatively, an adjusted LIBOR rate plus an applicable margin, ranging from 0.325% to 0.975%. The Credit Agreement also provided for the payment of a facility fee in the range of 0.10% to 0.30% and a utilization fee, if total borrowings exceeded 50% of the total facility, in the range of 0.05% to 0.25%. The amounts charged varied based on the Company's published credit ratings. The applicable margin, facility fee and utilization fee (if applicable) as of May 31, 2007 were 0.975%, 0.30% and 0.25%, respectively. There were no outstanding borrowings under the Credit Agreement at May 31, 2007 or May 31, 2006. The Credit Agreement contained certain covenants, including interest coverage and leverage ratio tests and certain limitations on the amount of dividends and other distributions. As of May 31, 2007, the Company was in compliance with these covenants.

On November 11, 1999, the Corporation and Scholastic Inc. entered into a contractually committed \$40 million unsecured revolving loan agreement, which, as amended, was scheduled to expire in 2009 (the "Revolver"). The interest rate charged for all loans made under the Revolver was set at either (1) the bank's prime lending rate minus 1% or (2) an adjusted LIBOR rate plus an applicable margin, ranging from 0.375% to 1.025%. The Revolver also provided for the payment of a facility fee in the range of 0.10% to 0.30%. The amounts charged varied based on the Company's published credit ratings. The applicable margin and facility fee as of May 31, 2007 were 1.025% and 0.30%, respectively. There were no outstanding borrowings under the Revolver at May 31, 2007 or May 31, 2006. The Revolver contained certain covenants, including interest coverage and leverage ratio tests and certain limitations on the amount of dividends and other distributions. As of May 31, 2007, the Company was in compliance with these covenants.

On June 1, 2007, Scholastic Corporation and Scholastic Inc. elected to irrevocably terminate both the Credit Agreement and the Revolver and replaced these facilities with a new \$525 million credit agreement with certain banks ("2012 Credit Agreement"), consisting of a \$325 million revolving credit component and an amortizing \$200 million term loan component. This contractually committed unsecured credit agreement is scheduled to expire on June 1, 2012. The \$325 million revolving credit component allows the Company to borrow, repay or prepay and reborrow at any time prior to the stated maturity date, and the proceeds may be used for general corporate purposes, including financing for acquisitions and share repurchases. The 2012 Credit Agreement also provides for an increase in the aggregate revolving credit commitments of the lenders of up to an additional \$150 million. The \$200 million term loan was fully drawn on June 28, 2007 in connection with the ASR. The term loan, which may be prepaid at any time without penalty, requires quarterly principal payments of \$10.7 million beginning on December 31, 2007, with the final payment of \$7.4 million due on June 1, 2012. At the election of the borrower, the interest rate charged for each loan made under the 2012 Credit Agreement is based on (1) a rate equal to the higher of (a) the bank's prime rate or (b) the



prevailing Federal Funds rate plus 0.5% or (2) an adjusted LIBOR rate plus an applicable margin, ranging from 0.50% to 1.25%, based on the Company's prevailing consolidated debt to total capital ratio. The 2012 Credit Agreement also provides for the payment of a facility fee in the range of 0.125% to 0.25% per annum on the revolving credit component only. The 2012 Credit Agreement contains certain covenants, including interest coverage and leverage ratio tests and certain limitations on the amount of dividends and other distributions.

During fiscal 2007, the Company entered into unsecured money market bid rate credit lines totaling \$50 million, of which \$41.0 million was outstanding at May 31, 2007. All loans made under these credit lines are at the sole discretion of the lender and at an interest rate and term, not to exceed one year, agreed to at the time each loan is made. These credit lines are typically available for loans up to 364 days and are renewable at the option of the lender. The weighted average interest rate for all money market bid rate loans outstanding on May 31, 2007 was 6.2%.

As of May 31, 2007, the Company had various local currency credit lines, with maximum available borrowings in amounts equivalent to \$68.8 million, underwritten by banks primarily in the United States, Canada and the United Kingdom. These credit lines are typically available for overdraft borrowings or loans up to 364 days and are renewable at the option of the lender. There were borrowings outstanding under these facilities equivalent to \$25.2 million at May 31, 2007 at a weighted average interest rate of 7.0%, as compared to \$33.8 million at May 31, 2006 at a weighted average interest rate of 6.0%.

At May 31, 2007, the Company had open standby letters of credit of \$8.4 million issued under certain credit lines, as compared to \$15.2 million at May 31, 2006. These letters of credit are scheduled to expire within one year; however, the Company expects that substantially all of these letters of credit will be renewed, at similar terms, prior to expiration.

The Company's total debt obligations were \$239.6 million at May 31, 2007 and \$502.4 million at May 31, 2006. The lower level of total debt at May 31, 2007 compared to the level at May 31, 2006 was substantially due to the repayment of \$258 million of the 5.75% Notes due 2007 that remained outstanding at maturity.

For a more complete description of the Company's debt obligations, see Note 3 of Notes to Consolidated Financial Statements in Item 8, "Consolidated Financial Statements and Supplementary Data."

### **Acquisitions**

In the ordinary course of business, the Company explores domestic and international expansion opportunities, including potential niche and strategic acquisitions. As part of this process, the Company engages with interested parties in discussions concerning possible transactions. The Company will continue to evaluate such opportunities and prospects.

### **New Accounting Pronouncements**

In July 2006, the FASB issued Interpretation No. 48, "Accounting for Uncertainty in Income Taxes" ("FIN 48"). FIN 48 clarifies the accounting for uncertainty in income taxes recognized in a company's financial statements in accordance with SFAS No. 109, "Accounting for Income Taxes." FIN 48 provides guidance on recognizing, measuring, presenting and disclosing in the financial statements uncertain tax positions that a company has taken or expects to file in a tax return. FIN 48 will become effective for the Company's fiscal year beginning June 1, 2007. The Company expects that the adoption of FIN 48 will not have a material impact on its consolidated financial position, results of operations or cash flows.

In September 2006, the FASB issued SFAS No. 157, "Fair Value Measurements" ("SFAS No. 157"). SFAS No. 157 defines fair value, establishes a framework for measuring fair value under generally accepted accounting principles and expands disclosures about fair value measurements. SFAS No. 157 emphasizes that fair value is a market-based measurement, not an entity-specific measurement, and states that a fair



value measurement should be determined based on the assumptions that market participants would use in pricing the asset or liability. SFAS No. 157 will become effective for the Company's fiscal year beginning June 1, 2008. The Company is currently evaluating the impact, if any, that SFAS No. 157 will have on its consolidated financial position, results of operations and cash flows.

In September 2006, the FASB issued SFAS No. 158, "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans—an amendment of FASB Statements No. 87, 88, 106, and 132(R)" ("SFAS No. 158"). SFAS No. 158 requires an employer to recognize the over-funded or under-funded status of a defined benefit post-retirement plan (other than a multiemployer plan) as an asset or liability in its statement of financial position and to recognize changes in that funded status in the year in which the changes occur through comprehensive income. SFAS No. 158 also requires the measurement of defined benefit plan assets and obligations as of the date of the employer's fiscal year-end statement of financial position (with limited exceptions). Under SFAS No. 158, the Company was required to recognize the funded status of its defined benefit post-retirement plan and to provide the required disclosures commencing as of May 31, 2007. The requirement to measure defined benefit plan assets and obligations as of the employer's fiscal year end is effective for the Company's fiscal year ending May 31, 2009. The adoption of SFAS No. 158 is not expected to have any impact on the Company's results of operations or cash flows.

#### **Item 7A | Quantitative and Qualitative Disclosures about Market Risk**

The Company conducts its business in various foreign countries, and as such, its cash flows and earnings are subject to fluctuations from changes in foreign currency exchange rates. Management believes that the impact of currency fluctuations does not represent a significant risk to the Company given the size and scope of its current international operations. The Company manages its exposures to this market risk through internally established procedures and, when deemed appropriate, through the use of short-term forward exchange contracts. All foreign exchange hedging transactions are supported by an identifiable commitment or a forecasted transaction. The Company does not enter into derivative transactions or use other financial instruments for trading or speculative purposes.

Market risks relating to the Company's operations result primarily from changes in interest rates, which are managed through the mix of variable-rate versus fixed-rate borrowings. Additionally, financial instruments, including swap agreements, have been used to manage interest rate exposures. Approximately 28% of the Company's debt at May 31, 2007 bore interest at a variable rate and was sensitive to changes in interest rates, compared to approximately 7% at May 31, 2006, with the higher level at the end of fiscal 2007 due to utilization of available borrowings under short-term unsecured lines of credit, which are variable rate instruments, to repay the 5.75% Notes due 2007 at maturity. The Company is subject to the risk that market interest rates and its cost of borrowing may increase and thereby increase the interest charged under its variable-rate debt, as well as the risk that variable-rate borrowings may represent a larger portion of total debt in the future.

Additional information relating to the Company's outstanding financial instruments is included in Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations."



The following table sets forth information about the Company's debt instruments as of May 31, 2007 (see Note 3 of Notes to Consolidated Financial Statements in Item 8, "Consolidated Financial Statements and Supplementary Data"):

(\$ amounts in millions)

	Fiscal Year Maturity					Total	Fair Value as of May 31, 2007
	2008	2009 <sup>(1)</sup>	2010	2011	Thereafter <sup>(1)</sup>		
<b>Debt Obligations</b>							
Lines of credit and short-term debt	\$ 66.2	\$ —	\$ —	\$ —	\$ —	\$ 66.2	\$ 66.2
Average interest rate	6.5%						
Long-term debt including Current portion:							
Fixed-rate debt	\$ —	\$ —	\$ —	\$ —	\$ 175.0	\$ 175.0	\$ 155.9
Average interest rate	5.0%						

- (1) At May 31, 2007, no borrowings were outstanding under the Credit Agreement or Revolver, which had credit lines totaling \$230.0 and were scheduled to expire in fiscal 2009. These facilities were terminated by the Company effective June 1, 2007 and replaced with the 2012 Credit Agreement, which includes a revolving credit component totaling \$325.0 and a \$200.0 amortizing term loan component that are scheduled to expire on June 1, 2012. The \$325.0 revolving credit component allows the Company to borrow, repay, prepay and reborrow at any time prior to the stated maturity date. The \$200.0 term loan component, which may be prepaid at any time without penalty, requires quarterly principal payments of \$10.7 beginning on December 31, 2007, with the final payment of \$7.4 due on June 1, 2012.



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**Item 8 | Consolidated Financial Statements and Supplementary Data**

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The following consolidated financial statement schedule for the years ended May 31, 2007, 2006 and 2005 is filed with this annual report on Form 10-K:

<a href="#">Schedule II — Valuation and Qualifying Accounts and Reserves</a>	S-2
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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.



## Consolidated Statements of Income

(Amounts in millions, except per share data)

Years ended May 31,

	2007	2006	2005
<b>Revenues</b>	<b>\$ 2,179.1</b>	<b>\$ 2,283.8</b>	<b>\$ 2,079.9</b>
Operating costs and expenses:			
Cost of goods sold (exclusive of depreciation)	1,005.3	1,103.1	979.0
Selling, general and administrative expenses	913.0	916.5	840.7
Bad debt expense	71.1	59.1	62.2
Depreciation and amortization	67.0	65.8	63.1
Total operating costs and expenses	2,056.4	2,144.5	1,945.0
<b>Operating income</b>	<b>122.7</b>	<b>139.3</b>	<b>134.9</b>
Other income	3.0	—	—
Interest income	2.6	3.5	1.0
Interest expense	32.7	35.2	36.2
Earnings before income taxes	95.6	107.6	99.7
Provision for income taxes	34.7	39.0	35.4
<b>Net income</b>	<b>\$ 60.9</b>	<b>\$ 68.6</b>	<b>\$ 64.3</b>

### Earnings per Share of Class A Stock and Common Stock:

Net income:			
Basic	\$ 1.43	\$ 1.65	\$ 1.61
Diluted	\$ 1.42	\$ 1.63	\$ 1.58

See accompanying notes



## Consolidated Balance Sheets

ASSETS	2007	2006
<b>Current Assets:</b>		
Cash and cash equivalents	\$ 22.8	\$ 205.3
Accounts receivable (less allowance for doubtful accounts of \$53.4 at May 31, 2007 and \$49.5 at May 31, 2006)	281.6	266.8
Inventories	422.9	431.5
Deferred promotion costs	50.1	49.8
Deferred income taxes	71.5	73.1
Prepaid expenses and other current assets	55.8	52.4
<b>Total current assets</b>	<b>904.7</b>	<b>1,078.9</b>
<b>Property, Plant and Equipment:</b>		
Land	13.3	13.3
Buildings	123.5	121.4
Capitalized software	169.0	151.7
Furniture, fixtures and equipment	324.8	308.7
Leasehold improvements	175.3	173.1
	805.9	768.2
Less accumulated depreciation and amortization	(422.6)	(371.2)
<b>Net property, plant and equipment</b>	<b>383.3</b>	<b>397.0</b>
<b>Other Assets and Deferred Charges:</b>		
Prepublication costs	112.7	115.9
Installment receivables (less allowance for doubtful accounts of \$4.6 at May 31, 2007 and \$3.3 at May 31, 2006)	13.1	11.2
Royalty advances (less allowance for reserves of \$58.4 at May 31, 2007 and \$54.7 at May 31, 2006)	51.3	46.0
Production costs	4.3	5.9
Goodwill	265.9	253.1
Other intangibles	78.5	78.4
Noncurrent deferred income taxes	6.1	4.5
Other	57.8	61.3
<b>Total other assets and deferred charges</b>	<b>589.7</b>	<b>576.3</b>
<b>Total assets</b>	<b>\$ 1,877.7</b>	<b>\$ 2,052.2</b>

See accompanying notes



(Amounts in millions, except share data)

Balances at May 31,

**LIABILITIES AND STOCKHOLDERS' EQUITY**

**2007**

**2006**

**Current Liabilities:**

Lines of credit, short-term debt and current portion of long-term debt	\$ 66.2	\$ 329.2
Capital lease obligations	5.5	7.5
Accounts payable	135.4	141.7
Accrued royalties	39.2	36.6
Deferred revenue	24.2	19.3
Other accrued expenses	143.6	154.7

**Total current liabilities**

**414.1**

**689.0**

**Noncurrent Liabilities:**

Long-term debt	173.4	173.2
Capital lease obligations	59.8	61.4
Other noncurrent liabilities	101.4	79.3

**Total noncurrent liabilities**

**334.6**

**313.9**

**Commitments and Contingencies**

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—

**Stockholders' Equity:**

Preferred Stock, \$1.00 par value Authorized – 2,000,000 shares; Issued – None	—	—
Class A Stock, \$0.1 par value Authorized – 4,000,000 shares (2,500,000 shares at May 31, 2006); Issued and outstanding – 1,656,200 shares	0.0	0.0
Common Stock, \$0.01 par value Authorized – 70,000,000 shares; Issued and outstanding – 41,422,121 shares (40,282,246 shares at May 31, 2006)	0.4	0.4
Additional paid-in capital	490.3	458.7
Deferred compensation	—	(1.6)
Accumulated other comprehensive loss	(34.5)	(20.1)
Retained earnings	672.8	611.9

**Total stockholders' equity**

**1,129.0**

**1,049.3**

**Total liabilities and stockholders' equity**

**\$ 1,877.7**

**\$ 2,052.2**



**Consolidated Statements of Changes in Stockholders' Equity and Comprehensive Income**

	Additional Paid-in Capital	Class A Stock		Common Stock	
		Shares	Amount	Shares	Amount
<b>Balance at May 31, 2004</b>	<b>\$ 388.1</b>	<b>1,656,200</b>	<b>\$ 0.0</b>	<b>37,930,986</b>	<b>\$ 0.4</b>
Comprehensive income:					
Net income					
Other comprehensive income (loss), net:					
Foreign currency translation adjustment					
Minimum pension liability adjustment, net of tax of \$5.3					
Total other comprehensive loss					
Total comprehensive income					
Deferred compensation, net of amortization	2.2			8,993	0.0
Proceeds from issuance of common stock pursuant to employee stock-based plans	29.9			1,136,565	0.0
Tax benefit realized from employee stock-based plans	3.8				
<b>Balance at May 31, 2005</b>	<b>424.0</b>	<b>1,656,200</b>	<b>0.0</b>	<b>39,076,544</b>	<b>0.4</b>
Comprehensive income:					
Net income					
Other comprehensive income, net:					
Foreign currency translation adjustment					
Minimum pension liability adjustment, net of tax of \$4.4					
Total other comprehensive income					
Total comprehensive income					
Deferred compensation, net of amortization	0.3			26,690	0.0
Proceeds from issuance of common stock pursuant to employee stock-based plans	28.7			1,179,012	0.0
Tax benefit realized from employee stock-based plans	5.7				
<b>Balance at May 31, 2006</b>	<b>458.7</b>	<b>1,656,200</b>	<b>0.0</b>	<b>40,282,246</b>	<b>0.4</b>
Comprehensive income:					
Net income					
Other comprehensive income, net:					
Foreign currency translation adjustment					
Minimum pension liability adjustment, net of tax of \$1.2					
Total other comprehensive income					
Total comprehensive income					
Adoption of SFAS No. 158, net of tax \$(8.5)					
Stock-based compensation (SFAS No. 123R)	1.6			22,148	0.0
Proceeds from issuance of common stock pursuant to employee stock-based plans	26.8			1,117,727	0.0
Tax benefit realized from employee stock-based plans	3.2				
<b>Balance at May 31, 2007</b>	<b>\$ 490.3</b>	<b>1,656,200</b>	<b>\$ 0.0</b>	<b>41,422,121</b>	<b>\$ 0.4</b>

See accompanying notes



(Amounts in millions, except share data)

Years ended May 31, 2007, 2006, 2005 and 2004

	Deferred Compensation	Accumulated Other Comprehensive Income (Loss)	Retained Earnings	Total Stockholders' Equity
<b>Balance at May 31, 2004</b>	\$ (0.6)	\$ (21.5)	\$ 479.0	\$ 845.4
Comprehensive income:				
Net income			64.3	64.3
Other comprehensive income (loss), net:				
Foreign currency translation adjustment		2.3		2.3
Minimum pension liability adjustment, net of tax of \$5.3		(9.3)		(9.3)
Total other comprehensive loss				(7.0)
Total comprehensive income				57.3
Deferred compensation, net of amortization	(1.5)			0.7
Proceeds from issuance of common stock pursuant to employee stock-based plans				29.9
Tax benefit realized from employee stock-based plans				3.8
<b>Balance at May 31, 2005</b>	<b>(2.1)</b>	<b>(28.5)</b>	<b>543.3</b>	<b>937.1</b>
Comprehensive income:				
Net income			68.6	68.6
Other comprehensive income, net:				
Foreign currency translation adjustment		0.8		0.8
Minimum pension liability adjustment, net of tax of \$4.4		7.6		7.6
Total other comprehensive income				8.4
Total comprehensive income				77.0
Deferred compensation, net of amortization	0.5			0.8
Proceeds from issuance of common stock pursuant to employee stock-based plans				28.7
Tax benefit realized from employee stock-based plans				5.7
<b>Balance at May 31, 2006</b>	<b>(1.6)</b>	<b>(20.1)</b>	<b>611.9</b>	<b>1,049.3</b>
Comprehensive income:				
Net income			60.9	60.9
Other comprehensive income, net:				
Foreign currency translation adjustment		(1.0)		(1.0)
Minimum pension liability adjustment, net of tax of \$1.2		2.3		2.3
Total other comprehensive income				1.3
Total comprehensive income				62.2
Adoption of SFAS No. 158, net of tax \$(8.5)		(15.7)		(15.7)
Stock-based compensation (SFAS No. 123R)	1.6			3.2
Proceeds from issuance of common stock pursuant to employee stock-based plans				26.8
Tax benefit realized from employee stock-based plans				3.2
<b>Balance at May 31, 2007</b>	<b>\$ 0.0</b>	<b>\$ (34.5)</b>	<b>\$ 672.8</b>	<b>\$ 1,129.0</b>



## Consolidated Statements of Cash Flows

(Amounts in millions)  
Years ended May 31,

	2007	2006	2005
<b>Cash flows provided by operating activities:</b>			
Net income	\$ 60.9	\$ 68.6	\$ 64.3
Adjustments to reconcile net income to net cash provided by operating activities:			
Provision for losses on accounts receivable	71.1	59.1	62.2
Provision for losses on inventory	29.4	31.3	38.7
Provision for losses on royalty	3.7	3.1	3.0
Amortization of prepublication and production costs	58.8	67.8	67.7
Depreciation and amortization	67.0	65.8	63.1
Royalty advances expensed	25.1	33.5	29.8
Deferred income taxes	1.4	1.8	20.4
Non-cash stock-based compensation	3.2	0.6	—
Non-cash interest expense	1.7	1.5	1.3
Non-cash net gain on equity investment	(3.0)	—	—
Non-cash net loss (gain) on equity affiliates	2.2	(0.2)	(0.2)
Changes in assets and liabilities:			
Accounts receivable	(81.0)	(53.7)	(61.6)
Inventories	(15.9)	(52.8)	(35.5)
Prepaid expenses and other current assets	(3.1)	(7.1)	(0.3)
Deferred promotion costs	—	(9.8)	2.7
Accounts payable	(9.0)	7.4	(13.4)
Other accrued expenses	(14.8)	24.2	0.6
Accrued royalties	2.1	(3.7)	1.6
Deferred revenue	2.2	(4.4)	(1.0)
Tax benefit realized from employee stock-based plans	3.2	5.7	3.8
Proceeds from insurance reimbursement	2.3	—	—
Gain on insurance settlement	(1.7)	—	—
Other, net	7.3	8.7	6.4
Total adjustments	152.2	178.8	189.3
Net cash provided by operating activities	213.1	247.4	253.6
<b>Cash flows used in investing activities:</b>			
Prepublication expenditures	(48.4)	(49.6)	(58.0)
Additions to property, plant and equipment	(49.4)	(66.1)	(49.8)
Royalty advances	(33.6)	(28.1)	(30.9)
Production expenditures	(5.5)	(12.9)	(18.0)
Repayment of loan from investee	5.6	5.7	5.5
Loans to investee	(7.7)	(5.3)	(5.7)
Acquisition-related payments	(7.3)	(4.5)	(3.7)
Proceeds from sale of equity investment	4.0	—	—
Proceeds from insurance reimbursement	1.5	—	—
Other	0.1	—	—
Net cash used in investing activities	(140.7)	(160.8)	(160.6)
<b>Cash flows (used in) provided by financing activities:</b>			
Borrowings under Credit Agreement and Revolver	349.0	170.3	342.4
Repayments of Credit Agreement and Revolver	(349.0)	(170.3)	(356.6)
Repurchase/repayment of 5.75% Notes	(294.0)	(6.0)	—
Borrowings under lines of credit	270.0	248.2	250.6
Repayments of lines of credit	(238.6)	(240.8)	(249.3)
Repayments of capital lease obligations	(7.5)	(10.3)	(10.5)
Proceeds pursuant to employee stock-based plans	26.8	28.7	29.9
Other	(0.6)	—	—
Net cash (used in) provided by financing activities	(243.9)	19.8	6.5
Effect of exchange rate changes on cash and cash equivalents	(11.0)	(11.7)	(6.7)
Net (decrease) increase in cash and cash equivalents	(182.5)	94.7	92.8
Cash and cash equivalents at beginning of year	205.3	110.6	17.8

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<b>Cash and cash equivalents at end of year</b>	<b>\$ 22.8</b>	<b>\$ 205.3</b>	<b>\$ 110.6</b>
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**Supplemental information:**

Income taxes paid	\$ 24.7	\$ 35.9	\$ 10.1
Interest paid	28.1	27.2	30.0
Non-cash investing and financing activities: Capital leases	2.6	3.4	9.5

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See accompanying notes



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## Notes to Consolidated Financial Statements

(Amounts in millions, except share and per share data)

### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### Principles of consolidation

The consolidated financial statements include the accounts of Scholastic Corporation (the “Corporation”) and all wholly-owned and majority-owned subsidiaries (collectively “Scholastic” or the “Company”). All significant intercompany transactions are eliminated in consolidation.

#### Use of estimates

The Company’s consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States. The preparation of these financial statements involves the use of estimates and assumptions by management, which affect the amounts reported in the consolidated financial statements and accompanying notes. The Company bases its estimates on historical experience, current business factors, and various other assumptions believed to be reasonable under the circumstances, all of which are necessary in order to form a basis for determining the carrying values of assets and liabilities. Actual results may differ from those estimates and assumptions. On an on going basis, the Company evaluates the adequacy of its reserves and the estimates used in calculations, including, but not limited to: collectability of accounts receivable and installment receivables; sales returns; amortization periods; stock-based compensation expense; pension and other post-retirement obligations; and recoverability of inventories, deferred promotion costs, deferred income taxes and tax reserves, prepublication costs, royalty advances, goodwill and other intangibles.

#### Revenue recognition

The Company’s revenue recognition policies for its principal businesses are as follows:

**School-Based Book Clubs** – Revenue from school-based book clubs is recognized upon shipment of the products.

**School-Based Book Fairs** – Revenue from school-based book fairs, which are generally a week in duration, is recognized ratably as each book fair occurs.

**Continuity Programs** – The Company operates continuity programs whereby customers generally place an order to receive multiple shipments of children’s books and other products over a period of time. Revenue from continuity programs is recognized at the time of shipment or, in applicable cases, upon customer acceptance. Reserves for estimated returns are established at the time of sale and recorded as a reduction to revenue. Actual returns are charged to the reserve as received. The calculation of the reserve for estimated returns is based on historical return rates and sales patterns.

**Trade** – Revenue from the sale of children’s books for distribution in the retail channel is primarily recognized when title transfers to the customer, which generally is at the time of shipment, or when the product is on sale and available to the public. A reserve for estimated returns is established at the time of sale and recorded as a reduction to revenue. Actual returns are charged to the reserve as received. The calculation of the reserve for estimated returns is based on historical return rates and sales patterns.

**Educational Publishing** – For shipments to schools, revenue is recognized on passage of title, which generally occurs upon receipt by the customer. Shipments to depositories are on consignment and revenue is recognized based on actual shipments from the depositories to the schools. For certain software-based products, the Company offers new customers installation and training, and in such cases, revenue is recognized when installation and training are complete.

**Toy Catalog** – Revenue from the sale of children’s toys to the home through catalogs is recognized when title



transfers to the customer, which generally is at the time of shipment. A reserve for estimated returns is established at the time of sale and recorded as a reduction to revenue. Actual returns are charged to the reserve as received. The calculation of the reserve for estimated returns is based on historical return rates and sales patterns.

**Film Production and Licensing** – Revenue from the sale of film rights, principally for the home video and domestic and foreign television markets, is recognized when the film has been delivered and is available for showing or exploitation. Licensing revenue is recorded in accordance with royalty agreements at the time the licensed materials are available to the licensee and collections are reasonably assured.

**Magazines** – Revenue is deferred and recognized ratably over the subscription period, as the magazines are delivered.

**Magazine Advertising** – Revenue is recognized when the magazine is on sale and available to the subscribers.

**Scholastic In-School Marketing** – Revenue is recognized in increments as the Company satisfies each of its specific contractual obligations for a campaign.

### **Cash equivalents**

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

### **Accounts receivable**

Accounts receivable are recorded net of allowances for doubtful accounts and reserves for returns. In the normal course of business, the Company extends credit to customers that satisfy predefined credit criteria. The Company is required to estimate the collectability of its receivables. Reserves for returns are based on historical return rates and sales patterns. Allowances for doubtful accounts are established through the evaluation of accounts receivable agings and prior collection experience to estimate the ultimate collectability of these receivables.

### **Inventories**

Inventories, consisting principally of books, are stated at the lower of cost, using the first-in, first-out method, or market. The Company records a reserve for excess and obsolete inventory based upon a calculation using the historical usage rates and sales patterns of its products.

### **Deferred promotion costs**

Deferred promotion costs represent all direct costs associated with direct mail, co-op, internet and telemarketing promotions, including incentive product costs incurred to acquire customers in the Company's continuity and magazine businesses. Promotional costs are deferred when incurred and amortized in the proportion that current revenues bear to estimated total revenues. The Company regularly evaluates the profitability of each continuity promotion over its life cycle based on historical and forecasted activity and adjusts the carrying value accordingly. Except as discussed above, all other advertising costs are expensed as incurred.

### **Property, plant and equipment**

Property, plant and equipment are carried at cost. Depreciation and amortization are recorded on a straight-line basis. Buildings have an estimated useful life, for purposes of depreciation, of forty years. Capitalized software is depreciated over a period of three to five 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. Interest is capitalized on major construction projects based on the outstanding construction-in-progress balance for the period and the average borrowing rate during the period.

### **Leases**

Lease agreements are evaluated to determine whether they are capital or operating leases in accordance with Statement of Financial Accounting Standards ("SFAS") No. 13, "Accounting For Leases," as amended ("SFAS No. 13"). When substantially all of the risks and benefits of property ownership have been transferred



to the Company, as determined by the test criteria in SFAS No. 13, the lease then qualifies as a capital lease.

Capital leases are capitalized at the lower of the net present value of the total amount of rent payable under the leasing agreement (excluding finance charges) or the fair market value of the leased asset. Capital lease assets are depreciated on a straight-line basis, over a period consistent with the Company's normal depreciation policy for tangible fixed assets, but generally not exceeding the lease term. Interest charges are expensed over the period of the lease in relation to the carrying value of the capital lease obligation.

Rent expense for operating leases, which may include free rent or fixed escalation amounts in addition to minimum lease payments, is recognized on a straight-line basis over the duration of each lease term.

### **Prepublication costs**

The Company capitalizes the art, prepress, editorial and other costs incurred in the creation of the master copy of a book or other media (the "prepublication costs"). Prepublication costs are amortized on a straight-line basis over a three- to seven-year period. The Company regularly reviews the recoverability of the capitalized costs based on expected future revenues.

### **Royalty advances**

Royalty advances are capitalized and expensed as related revenues are earned or when future recovery appears doubtful. The Company records a reserve for the recoverability of its outstanding advances to authors based primarily upon historical earndown experience.

### **Goodwill and other intangibles**

Goodwill and other intangible assets with indefinite lives are not amortized and are reviewed for impairment annually, or more frequently if impairment indicators arise. With regard to goodwill, the Company compares the estimated fair value of its identified reporting units, which are also the Company's operating segments, to the carrying value of the net assets. For each of the reporting units, the estimated fair value is determined utilizing the expected present value of the projected future cash flows of the units.

With regard to other intangibles with indefinite lives, the Company determines the fair value by asset, which is then compared to its carrying value. Intangible assets with definite lives consist principally of customer lists and covenants not to compete. Customer lists are amortized on a straight-line basis over a five-year period, while covenants not to compete are amortized on a straight-line basis over their contractual term.

### **Income taxes**

The Company uses the asset and liability method of accounting for income taxes. Under this method, deferred tax assets and liabilities are determined based on differences between financial reporting and tax bases of assets and liabilities and are measured using enacted tax rates and laws that will be in effect when the differences are expected to enter into the determination of taxable income.

The Company believes that its taxable earnings, during the periods when the temporary differences giving rise to deferred tax assets become deductible or when tax benefit carryforwards may be utilized, should be sufficient to realize the related future income tax benefits. For those jurisdictions where the expiration date of the tax benefit carryforwards or the projected taxable earnings indicate that realization is not likely, the Company establishes a valuation allowance.

In assessing the need for a valuation allowance, the Company estimates future taxable earnings, with consideration for the feasibility of ongoing tax planning strategies and the realizability of tax benefit carryforwards, to determine which deferred tax assets are more likely than not to be realized in the future. Valuation allowances related to deferred tax assets can be impacted by changes to tax laws, changes to statutory tax rates and future taxable earnings. In the event that actual results differ from these estimates in future periods, the Company may need to adjust the



valuation allowance, which could materially affect the Company's Consolidated Financial Statements.

It is the Company's policy to establish reserves for probable exposures as a result of an examination by tax authorities. The Company establishes the reserves based upon management's assessment of exposure associated with permanent tax differences, tax credits and interest expense applied to temporary difference adjustments. The tax reserves are analyzed periodically and adjustments are made as events occur to warrant adjustment to the reserve.

In calculating the provision for income taxes on an interim basis, the Company uses an estimate of the annual effective tax rate based upon the facts and circumstances known. The Company's effective tax rate is based on expected income and statutory tax rates and permanent differences between financial statement and tax return income applicable to the Company in the various jurisdictions in which the Company operates.

#### **Other noncurrent liabilities**

All of the rate assumptions discussed below impact the Company's calculations of its pension and post-retirement obligations. The rates applied by the Company are based on the portfolios' past average rates of return and discussions with its actuaries. Any change in market performance, interest rate performance, assumed health care costs trend rate or compensation rates could result in significant changes in the Company's pension and post-retirement obligations.

**Pension obligations** – Scholastic Corporation and certain of its subsidiaries have defined benefit pension plans covering the majority of their employees who meet certain eligibility requirements. The Company's pension plans and other post-retirement benefits are accounted for using actuarial valuations required by SFAS No. 87, "Employers' Accounting for Pensions," and SFAS No. 106, "Employers' Accounting for Post-retirement Benefits Other Than Pensions." In September 2006, the Financial Accounting Standards Board (the "FASB") released SFAS No. 158, "Employers' Accounting for Defined Benefit Pension and Other Post-retirement Plans, an amendment of SFAS No. 87, 88, 106, and 132(R)" ("SFAS No. 158").

On May 31, 2007, the Company adopted the recognition and disclosure provisions of SFAS No. 158, which required the Company to recognize the funded status of its pension plans in its May 31, 2007 consolidated balance sheet, with a corresponding adjustment to accumulated other comprehensive income, net of taxes. The adjustment to accumulated other comprehensive income at adoption represents the net unrecognized actuarial losses (gains) and unrecognized prior service costs under the Company's pension plans and other post-retirement benefits. These amounts will be subsequently recognized as net periodic pension cost pursuant to the Company's historical accounting policy for amortizing such amounts. Further, actuarial gains and losses that arise in subsequent periods and are not recognized as net periodic pension cost or net periodic post-retirement benefit cost in the same periods will be recognized as a component of comprehensive income. Those amounts will be subsequently recognized as a component of net periodic pension cost or net periodic post-retirement benefit cost on the same basis as the amounts recognized in accumulated other comprehensive income at the adoption of SFAS No. 158.

The incremental effect of adopting the provisions of SFAS No. 158 on the Company's consolidated balance sheet at May 31, 2007 is a reduction in stockholders' equity of \$15.7 million, net of tax. The adoption of SFAS No. 158 had no effect on the Company's results of operations or cash flows for the year ended May 31, 2007, or for any prior period presented, and it will not have any effect on the Company's results of operations or cash flows in future periods.

The Company's pension calculations are based on three primary actuarial assumptions: the discount rate, the long-term expected rate of return on plan assets, and the anticipated rate of compensation increases. The discount rate is used in the measurement of the projected, accumulated and vested benefit obligations and the service and interest cost components of net periodic pension costs.



The long-term expected return on plan assets is used to calculate the expected earnings from the investment or reinvestment of plan assets. The anticipated rate of compensation increase is used to estimate the increase in compensation for participants of the plan from their current age to their assumed retirement age. The estimated compensation amounts are used to determine the benefit obligations and the service cost. Pension benefits in the cash balance plan for employees located in the United States are based on formulas in which the employees' balances are credited monthly with interest based on the average rate for one-year United States Treasury Bills plus 1%. Contribution credits are based on employees' years of service and compensation levels during their employment period.

**Other post-retirement benefits** – Scholastic Corporation provides post-retirement benefits, consisting of healthcare and life insurance benefits, to retired United States-based employees. A majority of these employees may become eligible for these benefits if they reach normal retirement age while working for the Company. The post-retirement medical plan benefits are funded on a pay-as-you-go basis, with the Company paying a portion of the premium and the employee paying the remainder. The Company follows SFAS No. 106, "Employers' Accounting for Post-retirement Benefits Other than Pensions," in calculating the existing benefit obligation, which is based on the discount rate and the assumed health care cost trend rate. The discount rate is used in the measurement of the projected and accumulated benefit obligations and the service and interest cost components of net periodic post-retirement benefit cost. The assumed health care cost trend rate is used in the measurement of the long-term expected increase in medical claims.

### **Foreign currency translation**

The Company's non-United States dollar-denominated assets and liabilities are translated into United States dollars at prevailing rates at the balance sheet date and the revenues, costs and expenses are translated at the average rates prevailing during each reporting period. Net gains or losses resulting from the translation of the foreign financial statements and the effect of exchange rate changes on long-term intercompany balances are accumulated and charged directly to the foreign currency translation adjustment component of stockholders' equity.

### **Shipping and handling costs**

Amounts billed to customers for shipping and handling are classified as revenue. Costs incurred in shipping and handling are recognized in cost of goods sold.

### **Reclassifications**

Certain prior years' amounts have been reclassified to conform to the current year's presentation. The Company had previously reported certain amounts related to the translation of foreign currency amounts in "Other, net" in the Statement of Cash Flows that are now presented as a component of the "Effect of exchange rate changes on cash and cash equivalents." The impact of these changes is an increase in "Net cash provided by operating activities" of \$12.0 and \$6.8 for 2006 and 2005, respectively.

### **Earnings per share**

Basic earnings per share is based on the weighted average shares of Class A Stock and Common Stock outstanding. Diluted earnings per share is based on the weighted average shares of Class A Stock and Common Stock outstanding adjusted for the impact of potentially dilutive securities outstanding. The dilutive impact of options outstanding is calculated using the treasury stock method, which treats the options as if they were exercised at the beginning of the period, adjusted for Common Stock assumed to be repurchased with the proceeds and tax benefit realized upon exercise. Any potentially dilutive security is excluded from the computation of diluted earnings per share for any period in which it has an anti-dilutive effect. Options that were not included in the computation of diluted earnings per share because to do so would have been anti-dilutive totaled: 3,311,436 at May 31, 2007, 1,934,107 at May 31, 2006 and 1,485,110 at May 31, 2005.

### **Stock-based compensation**

Prior to June 1, 2006, the Company applied the intrinsic value-based method of accounting prescribed by Accounting Principles Board ("APB") Opinion No.



25, “Accounting for Stock Issued to Employees” (“APB No. 25”), and related interpretations in accounting for its stock-based compensation plans. Under this method, no compensation expense was recognized with respect to options granted under the Company’s stock-based compensation plans, as the exercise price of each stock option issued was equal to the market price of the underlying stock on the date of grant and the exercise price and number of shares subject to grant were fixed.

In May 2006, the Human Resources and Compensation Committee (the “Committee”) of the Board of Directors (the “Board”) of the Corporation, which consists entirely of independent directors, approved the acceleration of the vesting of all unvested options to purchase Class A Stock and Common Stock outstanding as of May 30, 2006 granted to employees (including executive officers) and outside directors of the Corporation, as described below (the “Acceleration”). Except for the Acceleration, all other terms and conditions applicable to such stock options were unchanged. Substantially all of these options had exercise prices in excess of the market value of the underlying Common Stock on May 30, 2006. The primary purpose of the Acceleration was to mitigate the future compensation expense that the Company would have otherwise recognized in its financial statements with respect to these options as a result of the June 1, 2006 adoption of SFAS No. 123R, “Share Based Payment” (“SFAS No. 123R”), by the Company.

The Company adopted the fair value recognition provisions of SFAS No. 123R, which revises SFAS No. 123, “Accounting for Stock-Based Compensation” (“SFAS No. 123”), using the modified prospective method. SFAS No. 123R requires the Company to recognize the cost of employee and director services received in exchange for any stock-based awards. Under SFAS No. 123R, the Company recognizes compensation expense on a straight-line basis over an award’s requisite service period, which is generally the vesting period, based on the award’s fair value at the date of grant.

The following table illustrates the effect on net income and earnings per share if the Company had applied the fair value recognition provisions of SFAS No. 123 to its stock-based compensation expense for each of the fiscal years ended May 31:

	2006	2005
Net income – as reported	\$ 68.6	\$ 64.3
Add: Stock-based compensation expense included in reported net income, net of tax	0.6	0.8
Deduct: Total stock-based compensation expense determined under fair value based method, net of tax	23.8	13.0
<b>Net income – pro forma</b>	<b>\$ 45.4</b>	<b>\$ 52.1</b>

	2006	2005
Earnings per share – as reported		
Basic	\$ 1.65	\$ 1.61
Diluted	1.63	1.58
Earnings per share – pro forma		
Basic	\$ 1.09	\$ 1.30
Diluted	1.08	1.28

Under SFAS No. 123R, the fair values of stock options granted by the Company are estimated at the date of grant using the Black-Scholes option-pricing model. The Company’s determination of the fair value of share-based payment awards using this option-pricing model is affected by the price of the Common Stock as well as by assumptions regarding highly complex and subjective variables, including, but not limited to, the expected price volatility of the Common Stock over the terms of the awards, the risk-free interest rate, and actual and projected employee stock option exercise behaviors. Estimates of fair value are not intended to predict actual future events or the value that may ultimately be realized by employees or directors who receive these awards.

SFAS No. 123R requires forfeitures to be estimated at the time of grant and revised, if necessary, in subsequent periods if actual forfeitures differ from those estimates in order to derive the Company’s best estimate of awards ultimately expected to vest. In determining the estimated forfeiture rates for stock-based awards, the Company periodically conducts an assessment of the actual number of equity awards that



have been forfeited previously. When estimating expected forfeitures, the Company considers factors such as the type of award, the employee class and historical experience. The estimate of stock-based awards that will ultimately be forfeited requires significant judgment and, to the extent that actual results or updated estimates differ from current estimates, such amounts will be recorded as a cumulative adjustment in the period such estimates are revised. In the Company's pro forma information required under SFAS No. 123 for the periods prior to June 1, 2006, the Company accounted for forfeitures as they occurred.

The weighted average fair value of options granted during fiscal 2007, 2006 and 2005 using the Black-Scholes option pricing model was \$12.22, \$13.68 and \$16.33 per share, respectively. For purposes of pro forma disclosure, the estimated fair value of the options is amortized over the options' vesting periods, including the effect of the Acceleration.

The following table provides the significant weighted average assumptions used in determining the estimated weighted average fair value for options granted by the Company during fiscal 2007, 2006 and 2005 under the Black-Scholes option pricing model. The expected life represents an estimate of the period of time stock options are expected to remain outstanding based on the historical exercise behavior of the option grantees. The risk-free interest rate was based on the U.S. Treasury yield curve in effect at the time of the grant corresponding to the expected life. The volatility was estimated based on historical volatility corresponding to the expected life. The dividend yield was zero, based on the fact that the Corporation has not paid any cash dividends since its initial public offering in February 1992 and has no current plans to pay any dividends.

	2007	2006	2005
Expected dividend yield	0.0%	0.0%	0.0%
Expected stock price volatility	32.89%	37.46%	55.2%
Risk-free interest rate	4.68%	4.22%	3.46%
Expected life of options	6 years	5 years	5 years

### New accounting pronouncements

In July 2006, the FASB issued Interpretation No. 48, "Accounting for Uncertainty in Income Taxes" ("FIN 48"). FIN 48 clarifies the accounting for uncertainty in income taxes recognized in a company's financial statements in accordance with SFAS No. 109, "Accounting for Income Taxes." FIN 48 provides guidance on recognizing, measuring, presenting and disclosing in the financial statements uncertain tax positions that a company has taken or expects to file in a tax return. FIN 48 will become effective for the Company's fiscal year beginning June 1, 2007. The Company expects that the adoption of FIN 48 will not have a material impact on its consolidated financial position, results of operations or cash flows.

In September 2006, the FASB issued SFAS No. 157, "Fair Value Measurements" ("SFAS No. 157"). SFAS No. 157 defines fair value, establishes a framework for measuring fair value under generally accepted accounting principles and expands disclosures about fair value measurements. SFAS No. 157 emphasizes that fair value is a market-based measurement, not an entity-specific measurement, and states that a fair value measurement should be determined based on the assumptions that market participants would use in pricing the asset or liability. SFAS No. 157 will become effective for the Company's fiscal year beginning June 1, 2008. The Company is currently evaluating the impact, if any, that SFAS No. 157 will have on its consolidated financial position, results of operations and cash flows.

In September 2006, the FASB issued SFAS No. 158, "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans—an amendment of FASB Statements No. 87, 88, 106, and 132(R)" ("SFAS No. 158"). SFAS No. 158 requires an employer to recognize the over-funded or under-funded status of a defined benefit post-retirement plan (other than a multiemployer plan) as an asset or liability in its statement of financial position and to recognize changes in that funded status in the year in which the changes occur through comprehensive income. SFAS No. 158 also requires the measurement of defined



benefit plan assets and obligations as of the date of the employer's fiscal year-end statement of financial position (with limited exceptions). Under SFAS No. 158, the Company was required to recognize the funded status of its defined benefit post-retirement plan and to provide the required disclosures commencing as of May 31, 2007. The requirement to measure defined benefit plan assets and obligations as of the employer's fiscal year end is effective for the Company's fiscal year ending May 31, 2009. The adoption of that portion of SFAS No. 158 is not expected to have any impact on the Company's results of operations or cash flows.

## 2. SEGMENT INFORMATION

The Company categorizes its businesses into four operating segments: *Children's Book Publishing and Distribution*; *Educational Publishing*; *Media, Licensing and Advertising* (which collectively represent the Company's domestic operations); and *International*. This classification reflects the nature of products and services consistent with the method by which the Company's chief operating decision-maker assesses operating performance and allocates resources. Revenues and operating margin related to a segment's products sold or services rendered through another segment's distribution channel are reallocated to the segment originating the products or services.

- **Children's Book Publishing and Distribution** includes the publication and distribution of children's books in the United States through school-based book clubs and book fairs, school-based and direct-to-home continuity programs and the trade channel.
- **Educational Publishing** includes the production and/or publication and distribution to schools and libraries of educational technology products, curriculum materials, children's books, classroom magazines and print and online reference and non-fiction products for grades pre-kindergarten to 12 in the United States.
- **Media, Licensing and Advertising** includes the production and/or distribution of media and electronic products and programs (including children's television programming, videos, DVD's, software, feature films, interactive and audio products, promotional activities and non-book merchandise); and advertising revenue, including sponsorship programs.
- **International** includes the publication and distribution of products and services outside the United States by the Company's international operations, and its export and foreign rights businesses.



The following table sets forth information for the three fiscal years ended May 31 for the Company's segments.

	Children's Book Publishing and Distribution	Educational Publishing	Media, Licensing and Advertising	Overhead <sup>(1)</sup>	Total Domestic	International	Consolidated
<b>2007</b>							
Revenues	\$ 1,155.3	\$ 412.7	\$ 162.5	\$ 0.0	\$ 1,730.5	\$ 448.6	\$ 2,179.1
Bad debt	58.9	1.0	1.8	0.0	61.7	9.4	71.1
Depreciation and amortization	17.4	4.1	3.0	34.6	59.1	7.9	67.0
Amortization <sup>(2)</sup>	17.2	28.4	11.2	0.0	56.8	2.0	58.8
Royalty advances expensed	23.3	1.4	1.1	0.0	25.8	3.0	28.8
Operating income (loss) <sup>(3)</sup>	68.8	76.8	16.0	(72.4)	89.2	33.5	122.7
Segment assets	729.4	361.9	63.0	388.0	1,542.3	335.4	1,877.7
Goodwill	130.6	94.2	9.8	0.0	234.6	31.3	265.9
Expenditures for long-lived assets <sup>(4)</sup>	64.7	33.0	12.4	21.3	131.4	12.8	144.2
Long-lived assets <sup>(5)</sup>	299.8	214.4	27.9	280.3	822.4	112.5	934.9
<b>2006</b>							
Revenues	\$ 1,304.0	\$ 416.1	\$ 151.6	\$ 0.0	\$ 1,871.7	\$ 412.1	\$ 2,283.8
Bad debt	44.8	4.7	0.7	0.0	50.2	8.9	59.1
Depreciation and amortization	16.5	3.8	1.4	38.2	59.9	5.9	65.8
Amortization <sup>(2)</sup>	16.4	28.0	19.4	0.0	63.8	4.0	67.8
Royalty advances expensed	29.7	2.2	2.0	0.0	33.9	2.7	36.6
Operating income (loss) <sup>(3)</sup>	114.2	69.6	10.3	(77.5)	116.6	22.7	139.3
Segment assets	808.8	349.4	70.0	508.5	1,736.7	315.5	2,052.2
Goodwill	130.6	82.5	9.8	0.0	222.9	30.2	253.1
Expenditures for long-lived assets <sup>(4)</sup>	65.0	28.8	20.3	33.2	147.3	13.9	161.2
Long-lived assets <sup>(5)</sup>	293.5	206.9	33.6	291.9	825.9	109.9	935.8
<b>2005</b>							
Revenues	\$ 1,152.5	\$ 404.6	\$ 133.1	\$ 0.0	\$ 1,690.2	\$ 389.7	\$ 2,079.9
Bad debt	51.1	1.3	0.3	0.0	52.7	9.5	62.2
Depreciation and amortization	13.5	3.4	1.7	38.5	57.1	6.0	63.1
Amortization <sup>(2)</sup>	16.1	32.3	17.3	0.0	65.7	2.0	67.7
Royalty advances expensed	27.3	2.4	1.1	0.0	30.8	2.0	32.8
Operating income (loss) <sup>(3)</sup>	93.5	78.5	11.0	(78.4)	104.6	30.3	134.9
Segment assets	733.3	347.3	63.1	484.7	1,628.4	303.0	1,931.4
Goodwill	130.6	82.5	9.8	0.0	222.9	31.3	254.2
Expenditures for long-lived assets <sup>(4)</sup>	64.6	38.7	22.1	22.8	148.2	12.2	160.4
Long-lived assets <sup>(5)</sup>	289.5	215.8	37.1	298.0	840.4	107.0	947.4

(1) Overhead includes all domestic corporate amounts not allocated to reportable segments, including expenses and costs related to the management of corporate assets. Unallocated assets are principally comprised of deferred income taxes and property, plant and equipment related to the Company's headquarters in the metropolitan New York area, its fulfillment and distribution facilities located in Missouri and Arkansas, and an industrial/office building complex in Connecticut.

(2) Includes amortization of prepublication costs and production costs, but excludes amortization of promotion costs.

(3) Operating income (loss) represents earnings before other income, interest and income taxes. In fiscal 2006, *Educational Publishing* includes pre-tax costs of \$3.2 related to the write-down of certain print reference set assets and bad debt expense of \$2.9 associated with the bankruptcy of a customer. In fiscal 2005, *Children's Book Publishing and Distribution* includes pre-tax charges of \$3.8, primarily related to severance costs due to a review of the continuity business.

(4) Includes expenditures for property, plant and equipment, investments in prepublication and production costs, royalty advances and acquisitions of, and investments in, businesses.

(5) Includes property, plant and equipment, prepublication costs, goodwill, other intangibles, royalty advances, production costs and long-term investments.



The following table separately sets forth information for the United States direct-to-home portion of the Company's continuity programs, which consist primarily of the business formerly operated by Grolier Incorporated and are included in the *Children's Book Publishing and Distribution* segment, and for all other businesses included in the segment, for the fiscal years ended May 31:

	Direct-to-home			All Other			Total		
	2007	2006	2005	2007	2006	2005	2007	2006	2005
Revenues	\$ 156.0	\$ 134.9	\$ 147.5	\$ 999.3	\$ 1,169.1	\$ 1,005.0	\$ 1,155.3	\$ 1,304.0	\$ 1,152.5
Bad debt	40.7	29.6	31.9	18.2	15.2	19.2	58.9	44.8	51.1
Depreciation	1.4	0.8	0.6	16.0	15.7	12.9	17.4	16.5	13.5
Amortization <sup>(1)</sup>	2.0	1.4	1.4	15.2	15.0	14.7	17.2	16.4	16.1
Royalty advances expensed	3.8	3.2	3.8	19.5	26.5	23.5	23.3	29.7	27.3
Business income (loss) <sup>(2)</sup>	(29.3)	(13.6)	(2.8)	98.1	127.8	96.3	68.8	114.2	93.5
Business assets	218.9	217.8	196.2	510.5	591.0	537.1	729.4	808.8	733.3
Goodwill	92.4	92.4	92.4	38.2	38.2	38.2	130.6	130.6	130.6
Expenditures for long-lived assets <sup>(3)</sup>	8.7	5.9	7.1	56.0	59.1	57.5	64.7	65.0	64.6
Long-lived assets <sup>(4)</sup>	118.1	116.5	115.2	181.7	177.0	174.3	299.8	293.5	289.5

(1) Includes amortization of prepublication costs, but excludes amortization of promotion costs.

(2) Business income (loss) represents earnings (loss) before other income, interest and income taxes. In fiscal 2005, Direct-to-home and All Other include charges of \$3.6 and \$0.2, respectively, related to a review of the continuity business.

(3) Includes expenditures for property, plant and equipment, investments in prepublication costs, royalty advances and acquisitions of businesses.

(4) Includes property, plant and equipment, prepublication costs, goodwill, other intangibles and royalty advances.

### 3. DEBT

The following summarizes debt as of May 31:

	2007		2006	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Lines of credit	\$ 66.2	\$ 66.2	\$ 33.8	\$ 33.8
5.75% Notes due 2007, net of premium/discount	—	—	295.3	293.2
5% Notes due 2013, net of discount	173.4	155.9	173.2	150.8
Other debt	—	—	0.1	0.1
<b>Total debt</b>	<b>239.6</b>	<b>222.1</b>	<b>502.4</b>	<b>477.9</b>
Less lines of credit, short-term debt and current portion of long-term debt	(66.2)	(66.2)	(329.2)	(327.1)
<b>Total long-term debt</b>	<b>\$ 173.4</b>	<b>\$ 155.9</b>	<b>\$ 173.2</b>	<b>\$ 150.8</b>

Short-term debt is carried at cost, which approximates fair value. Fair values were estimated based on market quotes, where available, or dealer quotes.



The following table sets forth the maturities of the carrying values of the Company's debt obligations as of May 31, 2007 for fiscal years ended May 31:

2008	\$	66.2
2009		—
2010		—
2011		—
2012		—
Thereafter		173.4
<b>Total debt</b>	<b>\$</b>	<b>239.6</b>

### Credit Agreement

On March 31, 2004, the Corporation, along with its principal operating subsidiary, Scholastic Inc., obtained a \$190 revolving credit facility, which was scheduled to expire in 2009 (the "Credit Agreement"). The interest rate charged for all loans made under the Credit Agreement was, at the election of the borrower, based on the bank's prime rate or, alternatively, an adjusted LIBOR rate plus an applicable margin, ranging from 0.325% to 0.975%. The Credit Agreement also provided for the payment of a facility fee in the range of 0.10% to 0.30% and a utilization fee, if total borrowings exceeded 50% of the total facility, in the range of 0.05% to 0.25%. The amounts charged varied based on the Company's published credit ratings. The applicable margin, facility fee and utilization fee (if applicable) as of May 31, 2007 were 0.975%, 0.30% and 0.25%, respectively. There were no outstanding borrowings under the Credit Agreement at May 31, 2007 or May 31, 2006. The Credit Agreement contained certain covenants, including interest coverage and leverage ratio tests and certain limitations on the amount of dividends and other distributions. As of May 31, 2007, the Company was in compliance with these covenants. The borrowers elected to terminate the Credit Agreement at no cost, effective June 1, 2007. See "2012 Credit Agreement" below.

### Revolver

On November 11, 1999, the Corporation and Scholastic Inc. entered into a contractually committed \$40 unsecured revolving loan agreement, which, as amended, was scheduled to expire in 2009 (the "Revolver"). The interest rate charged for all loans made under the Revolver was set at either (1) the bank's prime lending rate minus 1% or (2) an adjusted LIBOR rate plus an applicable margin, ranging from 0.375% to 1.025%. The Revolver also provided for the payment of a facility fee in the range of 0.10% to 0.30%. The amounts charged varied based on the Company's published credit ratings. The applicable margin and facility fee as of May 31, 2007 were 1.025% and 0.30%, respectively. There were no outstanding borrowings under the Revolver at May 31, 2007 or May 31, 2006. The Revolver contained certain covenants, including interest coverage and leverage ratio tests and certain limitations on the amount of dividends and other distributions. As of May 31, 2007, the Company was in compliance with these covenants. The borrowers elected to terminate the Revolver at no cost, effective June 1, 2007. See "2012 Credit Agreement" below.

### 2012 Credit Agreement

On June 1, 2007, Scholastic Corporation and Scholastic Inc. elected to irrevocably terminate both the Credit Agreement and the Revolver and replaced these facilities with a new \$525 credit agreement with certain banks ("2012 Credit Agreement"), consisting of a \$325 revolving credit component and an amortizing \$200 term loan component. This contractually committed unsecured credit agreement is scheduled to expire on June 1, 2012. The \$325 revolving credit component allows the Company to borrow, repay or prepay and reborrow at any time prior to the stated maturity date, and the proceeds may be used for general corporate purposes, including financing for acquisitions and share repurchases. The 2012 Credit Agreement also provides for an increase in the aggregate revolving credit commitments of the lenders of up to an additional \$150. The \$200 term loan was fully drawn on June 28, 2007 in connection with the Accelerated Share Repurchase described in Note 14, "Subsequent Event," below. The term loan, which may be prepaid at any time without penalty, requires quarterly principal payments of \$10.7 beginning on December 31, 2007, with the final payment of \$7.4 due on June 1, 2012. At the election of the borrower, the interest rate charged for each loans made under the



2012 Credit Agreement is based on (1) a rate equal to the higher of (a) the bank's prime rate or (b) the prevailing Federal Funds rate plus 0.5% or (2) an adjusted LIBOR rate plus an applicable margin, ranging from 0.50% to 1.25%, based on the Company's prevailing consolidated debt to total capital ratio. The 2012 Credit Agreement also provides for the payment of a facility fee in the range of 0.125% to 0.25% per annum on the revolving credit component only. The 2012 Credit Agreement contains certain covenants, including interest coverage and leverage ratio tests and certain limitations on the amount of dividends and other distributions.

#### **5.75% Notes due 2007**

In January 2002, Scholastic Corporation issued \$300.0 of 5.75% Notes (the "5.75% Notes"). The 5.75% Notes were senior unsecured obligations that matured on January 15, 2007 with interest payable semi-annually on July 15 and January 15 of each year through maturity. The Company repurchased \$6.0 of the 5.75% Notes on the open market in fiscal 2006 and \$36.0 of the 5.75% Notes on the open market during the first six months of fiscal 2007. In January 2007, the Company repaid the \$258.0 of the 5.75% Notes that remained outstanding at maturity.

#### **5% Notes due 2013**

In April 2003, Scholastic Corporation issued \$175.0 of 5% Notes (the "5% Notes"). The 5% Notes are senior unsecured obligations that mature on April 15, 2013. Interest on the 5% Notes is payable semi-annually on April 15 and October 15 of each year through maturity. The Company may at any time redeem all or a portion of the 5% Notes at a redemption price (plus accrued interest to the date of the redemption) equal to the greater of (i) 100% of the principal amount, or (ii) the sum of the present values of the remaining scheduled payments of principal and interest discounted to the date of redemption.

#### **Lines of credit**

During fiscal 2007, the Company entered into unsecured money market bid rate credit lines totaling \$50, of which \$41.0 was outstanding at May 31, 2007. All loans made under these credit lines are at the sole discretion of the lender and at an interest rate and term, not to exceed one year, agreed to at the time each loan is made. These credit lines are typically available for loans up to 364 days and are renewable at the option of the lender. The weighted average interest rate for all money market bid rate loans outstanding on May 31, 2007 was 6.2%.

As of May 31, 2007, the Company had various local currency credit lines, with maximum available borrowings in amounts equivalent to \$68.8, underwritten by banks primarily in the United States, Canada and the United Kingdom. These credit lines are typically available for overdraft borrowings or loans up to 364 days and are renewable at the option of the lender. There were borrowings outstanding under these facilities equivalent to \$25.2 at May 31, 2007 at a weighted average interest rate of 7.0%, as compared to \$33.8 at May 31, 2006 at a weighted average interest rate of 6.0%.

### **4. COMMITMENTS AND CONTINGENCIES**

#### **Lease obligations**

The Company leases warehouse space, office space and equipment under various capital and operating leases over periods ranging from one to forty years. Certain of these leases provide for scheduled rent increases based on price-level factors. The Company generally does not enter into leases that call for contingent rent. In most cases, management expects that, in the normal course of business, leases will be renewed or replaced. Net rent expense relating to the Company's non-cancelable operating leases for the three fiscal years ended May 31, 2007, 2006 and 2005 was \$46.4, \$39.5 and \$36.6, respectively.

The Company was obligated under capital leases covering land, buildings and equipment in the amount of \$65.3 and \$68.9 at May 31, 2007 and 2006, respectively. Amortization of assets under capital leases is included in depreciation and amortization expense.



The following table sets forth the composition of capital leases reflected as Property, Plant and Equipment in the consolidated balance sheets at May 31:

	2007	2006
Land	\$ 3.5	\$ 3.5
Buildings	39.0	39.0
Equipment	51.6	49.0
	94.1	91.5
Accumulated amortization	(47.3)	(39.2)
<b>Total</b>	<b>\$ 46.8</b>	<b>\$ 52.3</b>

The following table sets forth the aggregate minimum future annual rental commitments at May 31, 2007 under all non-cancelable leases for fiscal years ending May 31:

	Operating Leases	Capital Leases
2008	\$ 37.5	\$ 11.2
2009	26.2	10.1
2010	21.7	8.4
2011	16.8	5.9
2012	14.7	5.6
Thereafter	69.0	212.6
<b>Total minimum lease payments</b>	<b>\$ 185.9</b>	<b>253.8</b>
Less amount representing interest		188.5
Present value of net minimum capital lease payments		65.3
Less current maturities of capital lease obligations		5.5
<b>Long-term capital lease obligations</b>		<b>\$ 59.8</b>

## Other Commitments

The Company had contractual commitments relating to royalty advances at May 31, 2007 totaling \$14.9. The aggregate annual commitments for royalty advances are as follows: fiscal 2008 – \$8.0; fiscal 2009 – \$5.2; fiscal 2010 – \$1.3; fiscal 2011 – \$0.4.

The Company had contractual commitments relating to minimum print quantities at May 31, 2007 totaling \$156.0. The annual commitments relating to minimum print quantities are as follows: fiscal 2008 – \$37.7; fiscal 2009 – \$38.5; fiscal 2010 – \$31.0; fiscal 2011 – \$31.7; fiscal 2012 – \$32.4; thereafter – \$287.2.

At May 31, 2007, the Company had open standby letters of credit of \$8.4 million issued under certain credit lines, as compared to \$15.2 million at May 31, 2006. These letters of credit expire within one year; however, the Company expects that substantially all of these letters of credit will be renewed, at similar terms, prior to expiration.

## Contingencies

Various claims and lawsuits arising in the normal course of business are pending against the Company. The results of these proceedings are not expected to have a material adverse effect on the Company's consolidated financial position or results of operations.

## 5. INVESTMENT

Included in the Other Assets and Deferred Charges Section of the Company's Consolidated Balance Sheets were investments of \$38.9 and \$39.5 at May 31, 2007 and May 31, 2006, respectively.

In fiscal 2007, the Company participated in the organization of a new entity, the Children's Network Venture LLC ("Children's Network"), that produces and distributes educational children's television programming under the name qubo. The Company has contributed a total of \$2.4 in cash and certain rights to existing television programming to the Children's Network. The Company's investment, which consists of a 12.25% equity interest, is accounted for using the equity method of accounting.

In fiscal 2003, the Company entered into a joint venture with The Book People, Ltd., a direct marketer of books in the United Kingdom, to distribute books to the home under the Red House name and through schools under the School Link name. The Company also acquired a 15% equity interest in The Book People Ltd.'s parent company, The Book People Group Ltd. for £12.0 with a possible £3.0 additional payment based on operating results and the satisfaction of certain conditions. As part of the transaction, the Company established a £3.0 loan agreement on June 19, 2002 in favor of The Book People Group, Ltd., which is available to fund the expansion of The Book People Group, Ltd. and for working capital purposes. The Company has also established a working capital loan

agreement in favor of The Book People, Ltd. to help fund inventory purchases for the joint venture, with an amount of available credit that varies annually in accordance with a formula based on certain financial metrics for the prior fiscal year. As of May 31, 2007, the available credit under this facility was approximately £1. As



of May 31, 2007, a total of approximately £4 (equivalent to \$7.9 at that date) was outstanding under these revolving credit facilities.

## 6. GOODWILL AND OTHER INTANGIBLES

Goodwill and other intangible assets with indefinite lives are reviewed for impairment annually, or more frequently if impairment indicators arise.

The following table summarizes the activity in Goodwill for the fiscal years ended May 31:

	2007	2006
Beginning balance	\$ 253.1	\$ 254.2
Additions due to acquisitions	11.7	—
Other adjustments	1.1	(1.1)
<b>Ending Balance</b>	<b>\$ 265.9</b>	<b>\$ 253.1</b>

In fiscal 2007, Additions due to acquisitions primarily reflected the acquisition of all of the outstanding shares of a school consulting and professional development services company. The Company has not yet finalized the opening balance sheet for this entity. See Note 12 "Acquisitions" for additional information.

The following table summarizes Other intangibles subject to amortization as of May 31:

	2007	2006
Customer lists	\$ 3.2	\$ 3.0
Accumulated amortization	(2.9)	(2.9)
Net customer lists	0.3	0.1
Other intangibles	4.1	4.0
Accumulated amortization	(3.0)	(2.8)
Net other intangibles	1.1	1.2
<b>Total</b>	<b>\$ 1.4</b>	<b>\$ 1.3</b>

Amortization expense for Other intangibles totaled \$0.2 for the fiscal year ended May 31, 2007 and \$0.3 for the fiscal year ended May 31, 2006. Amortization expense for these assets is currently estimated to total \$0.2 for the fiscal years ending May 31, 2008 through 2011 and \$0.1 for the fiscal year ending May 31, 2012. Intangible assets with definite lives consist principally of customer lists and covenants not to compete. Customer lists are amortized on a straight-line basis over a five-year period, while covenants not to compete are amortized on a straight-line basis over their contractual term.

The following table summarizes Other intangibles not subject to amortization as of May 31:

	2007	2006
Net carrying value by major class:		
Titles	\$ 31.0	\$ 31.0
Licenses	17.2	17.2
Major sets	11.4	11.4
Trademarks and other	17.5	17.5
<b>Total</b>	<b>\$ 77.1</b>	<b>\$ 77.1</b>

## 7. INCOME TAXES

The provisions for income taxes for the fiscal years ended May 31, 2007, 2006 and 2005 are based on earnings before taxes as follows:

	2007	2006	2005
United States	\$ 82.9	\$ 103.2	\$ 91.3
Non-United States	12.7	4.4	8.4

Total

\$ 95.6

\$ 107.6

\$ 99.7

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The provisions for income taxes attributable to earnings for the fiscal years ended May 31, 2007, 2006 and 2005 consist of the following components:

	2007	2006	2005
<b>Federal</b>			
Current	\$ 19.6	\$ 25.1	\$ 5.7
Deferred	2.4	1.6	19.0
	<b>\$ 22.0</b>	<b>\$ 26.7</b>	<b>\$ 24.7</b>
<b>State and local</b>			
Current	\$ 6.0	\$ 6.6	\$ 4.2
Deferred	(0.3)	0.1	0.4
	<b>\$ 5.7</b>	<b>\$ 6.7</b>	<b>\$ 4.6</b>
<b>International</b>			
Current	\$ 7.7	\$ 5.5	\$ 5.1
Deferred	(0.7)	0.1	1.0
	<b>\$ 7.0</b>	<b>\$ 5.6</b>	<b>\$ 6.1</b>
<b>Total</b>			
Current	<b>\$ 33.3</b>	<b>\$ 37.2</b>	<b>\$ 15.0</b>
Deferred	<b>1.4</b>	<b>1.8</b>	<b>20.4</b>
	<b>\$ 34.7</b>	<b>\$ 39.0</b>	<b>\$ 35.4</b>

The provisions for income taxes for the fiscal years ended May 31, 2007, 2006 and 2005 differ from the amount of tax determined by applying the federal statutory rate as follows:

	2007	2006	2005
Computed federal statutory provision	\$ 33.5	\$ 37.7	\$ 34.9
State income tax provision, net of federal income tax benefit	3.7	4.4	3.0
Difference in effective tax rates on earnings of foreign subsidiaries	0.6	(0.1)	(0.4)
Extraterritorial income	(0.5)	(1.4)	(0.9)
Charitable contributions	(0.9)	(0.6)	(1.4)
Tax credits	(0.9)	—	—
Other – net	(0.8)	(1.0)	0.2
<b>Total provision for income taxes</b>	<b>\$ 34.7</b>	<b>\$ 39.0</b>	<b>\$ 35.4</b>
<b>Effective tax rates</b>	<b>36.3%</b>	<b>36.25%</b>	<b>35.5%</b>

The undistributed earnings of foreign subsidiaries at May 31, 2007 were \$18.0. Any remittance of foreign earnings would not result in any significant additional tax.

The following table sets forth the tax effects of items that give rise to deferred tax assets and liabilities at May 31, 2007 and 2006:

	2007	2006
<b>Net deferred tax assets:</b>		
Tax uniform capitalization	\$ 19.1	\$ 21.7
Inventory reserves	20.1	19.1
Allowance for doubtful accounts	18.2	14.7
Other reserves	15.9	15.8
Post-retirement, post-employment and pension obligations	24.1	16.8
Tax carryforwards	21.7	19.1
Lease accounting	8.4	6.3
Prepaid expenses	(16.0)	(16.5)

Depreciation and amortization	(48.0)	(39.6)
Other – net	1.1	7.0
Subtotal	64.6	64.4
Valuation allowance	(13.0)	(10.7)
<b>Total net deferred tax assets</b>	<b>\$ 51.6</b>	<b>\$ 53.7</b>

Total net deferred tax assets of \$51.6 at May 31, 2007 and \$53.7 at May 31, 2006 include \$6.4 and \$5.5 in Other accrued expenses at May 31, 2007 and 2006, respectively, and \$19.6 and \$18.4 in Other noncurrent liabilities at May 31, 2007 and 2006, respectively.

At May 31, 2007, the Company had a charitable deduction carryforward of \$16.0, which expires in various amounts during the fiscal years ending 2008 through 2010, and federal and state operating loss carryforwards of \$4.0 and \$20.7, respectively, which expire annually in varying amounts if not utilized. The Company also had foreign operating loss carryforwards of \$44.4 at May 31, 2007, which either expire at various dates or do not expire.

For the years ended May 31, 2007 and 2006, the valuation allowance increased by \$2.3 and \$1.9, respectively.

The Company had tax reserves totaling \$8.6 and \$7.3 at May 31, 2007 and 2006, respectively.

## 8. CAPITAL STOCK AND STOCK OPTIONS

Scholastic Corporation has authorized capital stock of: 4,000,000 shares of Class A Stock; 70,000,000 shares of Common Stock; and 2,000,000 shares of Preferred Stock.



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In fiscal 2007, the Board adopted, and the holders of the Class A Stock (the “Class A Stockholders”) approved, an amendment to the Corporation’s Amended and Restated Certificate of Incorporation to increase the number of authorized shares of Class A Stock by 1,500,000, from 2,500,000 shares to 4,000,000 shares.

### **Class A Stock and Common Stock**

The only voting rights vested in the holders of Common Stock, except as required by law, are the election of such number of directors as shall equal at least one-fifth of the members of the Board. The Class A Stockholders are entitled to elect all other directors and to vote on all other matters. The Class A Stockholders and the holders of Common Stock are entitled to one vote per share on matters on which they are entitled to vote. The Class A Stockholders have the right, at their option, to convert shares of Class A Stock into shares of Common Stock on a share-for-share basis.

With the exception of voting rights and conversion rights, and as to the rights of holders of Preferred Stock if issued, the Class A Stock and the Common Stock are equal in rank and are entitled to dividends and distributions, when and if declared by the Board. Scholastic Corporation has not paid any cash dividends since its public offering in 1992 and has no current plans to pay any dividends on the Class A Stock or Common Stock.

At May 31, 2007, there were 1,656,200 shares of Class A Stock and 41,422,121 shares of Common Stock outstanding. At May 31, 2007, there were 1,499,000 shares of Class A Stock authorized for issuance under the Company’s stock-based compensation plans. At May 31, 2007, Scholastic Corporation had reserved for issuance 9,458,219 shares of Common Stock, which includes both shares of Common Stock that were reserved for issuance under the Company’s stock-based compensation plans and the 3,155,200 shares of Common Stock that were reserved for the potential issuance of Common Stock upon conversion of the outstanding shares of Class A Stock and the shares of Class A Stock that were reserved for issuance under the Company’s stock-based compensation plans.

### **Preferred Stock**

The Preferred Stock may be issued in one or more series, with the rights of each series, including voting rights, to be determined by the Board before each issuance. To date, no shares of Preferred Stock have been issued.

### **Stock-based awards**

At May 31, 2007, the Company maintained three stockholder-approved employee stock-based compensation plans with regard to the Common Stock: the Scholastic Corporation 1992 Stock Option Plan (the “1992 Plan”), under which no further awards can be made; the Scholastic Corporation 1995 Stock Option Plan (the “1995 Plan”), under which no further awards can be made; and the Scholastic Corporation 2001 Stock Incentive Plan (the “2001 Plan”). The 2001 Plan provides for the issuance of: incentive stock options, which qualify for favorable treatment under the Internal Revenue Code; options that are not so qualified, called non-qualified stock options; restricted stock; and other stock-based awards.

**Stock Options** – At May 31, 2007, non-qualified stock options to purchase 25,000 shares, 2,192,871 shares and 2,660,536 shares of Common Stock were outstanding under the 1992 Plan, 1995 Plan and 2001 Plan, respectively, and 360,105 shares of Common Stock were available for additional awards under the 2001 Plan. During fiscal 2007 the Company awarded 402,885 options under the 2001 plan at a weighted average exercise price of \$31.54. On July 18, 2007, the Board approved, subject to the approval of the Class A Stockholders at the Corporation’s annual meeting of stockholders to be held on September 19, 2007 (the “Annual Meeting”), an amendment to the 2001 plan to increase the number of shares of Common Stock available for grant under that plan by 2,000,000 shares.

The Company also maintains the 1997 Outside Directors’ Stock Option Plan (the “1997 Directors’ Plan”), a stockholder-approved stock option plan for outside directors. The 1997 Directors’ Plan, as amended, provides for the automatic grant to each non-employee director on the date of each annual stockholders’ meeting of non-qualified stock options to purchase 6,000 shares of Common Stock. In September 2006, 42,000 options were awarded under the 1997 Directors’ Plan at an exercise price of \$30.08 per share.



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At May 31, 2007, options to purchase 382,000 shares of Common Stock were outstanding under the 1997 Directors' Plan. Pursuant to its terms, no further awards can be made under the 1997 Directors' Plan after August 18, 2007.

The Scholastic Corporation 2004 Class A Stock Incentive Plan (the "Class A Plan") provides for the grant to Richard Robinson, the Chief Executive Officer of the Corporation as of the effective date of the Class A Plan, of options to purchase Class A Stock (the "Class A Options"). In fiscal 2007, the Board adopted, and the Class A Stockholders approved, an amendment to the Class A Plan that increased the total number of shares of Class A Stock authorized for issuance under the Class A Plan by 749,000, from 750,000 shares to 1,499,000 shares. In fiscal 2007, the Company awarded 333,000 Class A Options to Mr. Robinson at an exercise price of \$30.08 per share. At May 31, 2007, there were 999,000 Class A Options outstanding, and 500,000 shares of Class A Stock were available for additional awards, under the Class A Plan.

Generally, options granted under the various plans may not be exercised for a minimum of one year after the date of grant and expire approximately ten years after the date of grant.

As a result of its adoption of SFAS No. 123R, effective as of June 1, 2006, the Company incurred compensation expense of \$3.2 in the aggregate, with regard to unvested stock options, for the year ended May 31, 2007, which is significantly lower than the amount that would have been recorded in that period if the Acceleration had not been implemented. The total aggregate intrinsic value of stock options exercised during the year ended May 31, 2007 was \$8.7. The intrinsic value of these stock options is deductible by the Company for tax purposes. As of May 31, 2007, the total pre-tax compensation cost not yet recognized by the Company with regard to outstanding unvested stock options was \$10.4. The weighted average period over which this compensation cost is expected to be recognized is 3.2 years.



The following table sets forth the stock option activity for the Class A Stock and Common Stock plans for the three fiscal years ended May 31:

	2007		2006		2005	
	Options	Weighted Average Exercise Price	Options	Weighted Average Exercise Price	Options	Weighted Average Exercise Price
<b>Outstanding – beginning of year</b>	6,885,108	\$ 30.24	7,469,650	\$ 28.57	8,032,587	\$ 28.52
<b>Granted</b>	777,885	30.83	851,500	34.67	912,901	28.32
<b>Exercised</b>	(1,026,681)	23.46	(1,101,878)	23.36	(1,038,828)	26.10
<b>Cancelled</b>	(376,905)	32.46	(334,164)	32.81	(437,010)	33.36
<b>Outstanding – end of year</b>	<b>6,259,407</b>	<b>\$ 31.21</b>	<b>6,885,108</b>	<b>\$ 30.24</b>	<b>7,469,650</b>	<b>\$ 28.57</b>
<b>Exercisable – end of year</b>	5,536,892	\$ 31.26	6,885,108	\$ 30.24	5,106,057	\$ 28.18

The following table sets forth the stock option activity for the Class A Stock and Common Stock plans for the fiscal year ended May 31, 2007:

	Options	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (In years)	Aggregate Intrinsic Value
<b>Outstanding at May 31, 2006</b>	6,885,108	\$ 30.30		
<b>Granted</b>	777,885	30.83		
<b>Exercised</b>	(1,026,681)	23.46		
<b>Cancelled</b>	(376,905)	32.46		
<b>Outstanding at May 31, 2007</b>	6,259,407	\$ 31.21	5.6	\$ 16.6
<b>Vested and expected to vest at May 31, 2007</b>	6,221,908	31.21	5.5	16.5
<b>Exercisable at May 31, 2007</b>	5,536,892	31.26	5.0	15.5



**Restricted Stock Units**— In addition to stock options, the Company has issued restricted stock units to certain officers and key executives under the 2001 Plan (“Stock Units”). During fiscal 2007 and 2006, the Company granted 92,825 and 1,000 Stock Units, respectively, with a weighted average grant date price of \$30.35 and \$26.33 per share, respectively. Unless otherwise deferred, the Stock Units automatically convert to shares of Common Stock on a one-for-one basis as the award vests, which is typically over a four-year period beginning thirteen months from the grant date and thereafter annually on the anniversary of the grant date. There were 18,597 shares of Common Stock issued upon conversion of Stock Units during fiscal 2007. The Company measures the value of Stock Units at fair value based on the number of Stock Units granted at the price of the underlying Common Stock on the date of grant. The Company amortizes the fair value of outstanding stock units as stock-based compensation expense over the vesting term on a straight-line basis. In fiscal 2007 and 2006, the Company amortized \$0.9 and \$0.6, respectively, in connection with the outstanding Stock Units, recorded as a component of Selling, general and administrative expenses.

### Management Stock Purchase Plan

The Company maintains a Management Stock Purchase Plan (“MSPP”), which allows certain members of senior management to defer up to 100% of their annual cash bonus payment in the form of restricted stock units (“RSUs”). The RSUs are purchased by the employee at a 25% discount from the lowest closing price of the Common Stock on NASDAQ during the fiscal quarter in which such bonuses are payable and are converted into shares of Common Stock on a one-for-one basis at the end of the applicable deferral period. During fiscal 2007, 2006 and 2005, the Company allocated 6,860 RSUs, 35,211 RSUs and 13,171 RSUs, respectively, to participants under the MSPP at a weighted average price of \$30.35, \$26.64 and \$19.76 per RSU, respectively, resulting in an expense of \$0.1, \$0.3 and \$0.5, respectively. At May 31, 2007, there were 280,258 shares of Common Stock authorized for issuance under the MSPP. There were 22,945 shares of Common Stock issued upon conversion of RSUs during fiscal 2007. The Company measures the value of RSUs at fair value based on the number of RSUs granted and the price of the underlying Common Stock at the date of grant, giving effect to the 25% discount. The Company amortizes the fair value of RSUs as stock-based compensation expense over the vesting term on a straight-line basis.

The following table sets forth Stock Unit and RSU activity for the year ended May 31, 2007:

(in thousands of shares)	Stock Units	Weighted Average Grant-Date Fair Value
Nonvested as of May 31, 2006	180,405	\$ 17.28
Granted	99,685	30.35
Vested	(41,542)	20.81
Forfeited	(1,967)	29.67
Nonvested as of May 31, 2007	236,581	\$ 21.37

### Employee Stock Purchase Plan

The Company maintains an Employee Stock Purchase Plan (the “ESPP”), which is offered to eligible United States employees. The ESPP previously permitted participating employees to purchase Common Stock, with after-tax payroll deductions, on a quarterly basis at a 15% discount from the lower of the closing price of the Common Stock on NASDAQ on the first or last business day of each fiscal quarter. Effective June 1, 2006, the Company amended the ESPP to provide that the 15% discount will be based solely on the closing price of the Common Stock on NASDAQ on the last business day of the fiscal quarter. Upon adoption of SFAS No. 123R, the Company began recognizing the fair value of the Common Stock issued under the ESPP as stock-based compensation expense in the quarter in which the employees participated in the plan. During fiscal 2007, 2006 and 2005, the Company issued 86,288 shares, 77,134 shares and 98,286 shares of Common Stock under the ESPP at a weighted average price of \$27.47, \$28.08 and \$26.38 per share, respectively. At May 31, 2007, there were 187,898 shares of Common Stock remaining authorized for issuance under the ESPP.

## 9. EMPLOYEE BENEFIT PLANS

### Pension Plans

The Company has a cash balance retirement plan (the “Pension Plan”), which covers the majority of United States employees who meet certain eligibility requirements. The Company funds all of the contributions for the Pension Plan. Benefits generally



are based on the Company's contributions and interest credits allocated to participants' accounts based on years of benefit service and annual pensionable earnings. It is the Company's policy to fund the minimum amount required by the Employee Retirement Income Security Act of 1974, as amended.

Scholastic Ltd., an indirect subsidiary of Scholastic Corporation located in the United Kingdom, has a defined benefit pension plan (the "U.K. Pension Plan") that covers its employees who meet various eligibility requirements. Benefits are based on years of service and on a percentage of compensation near retirement. The U.K. Pension Plan is funded by contributions from Scholastic Ltd. and its employees.

Effective as of June 1, 2007, the U.K. Pension Plan was amended so that no further benefits will accrue to eligible employees under the existing defined benefit scheme. Affected employees were offered the choice to join either an existing Group Personal Pension Plan (the "GPPP") or a newly established defined contribution scheme. Based upon the employee's selection, Scholastic Ltd. will (1) make a contribution to the GPPP that will vary based upon the contribution made by eligible participant, or (2) make a fixed contribution to the newly established defined contribution scheme, provided the employee makes the minimum required contribution.

Grolier Ltd., an indirect subsidiary of Scholastic Corporation located in Canada, provides a defined benefit pension plan (the "Grolier Canada Pension Plan") that covers its employees who meet certain eligibility requirements. All full-time employees are eligible to participate in the plan after two years of employment. Grolier Ltd.'s contributions to the fund have been suspended due to an actuarial surplus. Employees are not required to contribute to the fund.

The Company's pension plans have different measurement dates, as follows: for the Pension Plan — May 31, 2007; for the U. K. Pension Plan and the Grolier Canada Pension Plan — March 31, 2007.

### **Post-Retirement Benefits**

The Company provides post-retirement benefits to retired United States-based employees (the "Post-Retirement Benefits") consisting of certain healthcare and life insurance benefits. A majority of these employees may become eligible for these benefits after completing certain minimum age and service requirements. At May 31, 2007, the unrecognized prior service cost remaining was \$7.5.

The Medicare Prescription Drug, Improvement and Modernization Act (the "Medicare Act") introduced a prescription drug benefit under Medicare ("Medicare Part D") as well as a Federal subsidy of 28% to sponsors of retiree health care benefit plans providing a benefit that is at least actuarially equivalent to Medicare Part D. In response to the Medicare Act, the FASB issued Staff Position 106-2, "Accounting and Disclosure Requirements Related to the Medicare Prescription Drug, Improvement and Modernization Act of 2003," to provide additional disclosure and guidance in implementing the federal subsidy provided by the Medicare Act. Based on this guidance, the Company has determined that the Post-Retirement Benefits provided to the retiree population are in aggregate the actuarial equivalent of the benefits under Medicare. As a result, in fiscal 2007 and 2006, the Company recognized a reduction of its accumulated post-retirement benefit obligation of \$10.2 and \$9.2, respectively, due to the federal subsidy under the Medicare Act.

The following table summarizes the incremental effect of the initial adoption of SFAS No. 158 on the individual items on the Consolidated Balance Sheet at May 31, 2007:



	Pension Plans		Post-Retirement Benefits	
	Effect of Adopting SFAS No. 158	As Reported	Effect of Adopting SFAS No. 158	As Reported
Asset for pension benefits	\$ (3.6)	\$ 0.4	\$ —	\$ —
Other current liabilities	—	—	—	(2.9)
Other non-current liabilities	(8.3)	(32.6)	(12.3)	(30.2)
Deferred income taxes	4.0	12.9	4.5	4.5
Accumulated other comprehensive income	7.9	24.3	7.8	7.8

The following table sets forth the weighted average actuarial assumptions utilized to determine the benefit obligations for the Pension Plan, the U.K. Pension Plan and the Grolier Canada Pension Plan (collectively the "Pension Plans"), including the Post-Retirement Benefits, at May 31:

	Pension Plans		Post-Retirement Benefits	
	2007	2006	2007	2006
Weighted average assumptions used to determine benefit obligations:				
Discount rate	5.8%	5.9%	6.0%	6.1%
Rate of compensation increase	3.6%	3.6%	—	—
Weighted average assumptions used to determine net periodic benefit cost:				
Discount rate	5.9%	5.3%	6.1%	5.3%
Expected long-term return on plan assets	8.6%	8.7%	—	—
Rate of compensation increase	3.6%	3.6%	—	—

To develop the expected long-term rate of return on assets assumption for the Pension Plans, the Company, with the assistance of its actuaries, considers historical returns and future expectations. Over the 15-20 year periods ended May 31, 2007, the returns on the portfolio, assuming it was invested at the current target asset allocation in the prior periods, would have been a compounded annual average of 10%-12%. Considering this information and the potential for lower future returns due to a generally lower interest rate environment, the Company selected an assumed weighted average long-term rate of return of 8.6% for all of the Pension Plans. The following table sets forth the change in benefit obligation for the Pension Plans and Post-Retirement Benefits at May 31:

	Pension Plans		Post-Retirement Benefits	
	2007	2006	2007	2006
Change in benefit obligation:				
Benefit obligation at beginning of year	\$ 162.0	\$ 158.0	\$ 31.1	\$ 36.2
Service cost	8.1	8.0	0.2	0.2
Interest cost	9.3	8.3	1.9	1.8
Plan participants' contributions	0.4	0.4	0.2	0.2
Actuarial (gains) losses	5.9	(2.8)	2.1	(4.7)
Foreign currency exchange rate changes	(0.2)	0.1	—	—
Benefits paid	(12.6)	(10.0)	(2.4)	(2.6)
<b>Benefit obligation at end of year</b>	<b>\$ 172.9</b>	<b>\$ 162.0</b>	<b>\$ 33.1</b>	<b>\$ 31.1</b>



The following table sets forth the change in plan assets for the Pension Plans and Post-Retirement Benefits at May 31:

	Pension Plans		Post-Retirement Benefits	
	2007	2006	2007	2006
<b>Change in plan assets:</b>				
Fair value of plan assets at beginning of year	\$ 124.7	\$ 120.6	\$ —	\$ —
Actual return on plan assets	19.1	13.1	—	—
Employer contributions	10.5	1.5	2.2	2.6
Benefits paid, including expenses	(13.7)	(11.1)	(2.4)	(2.8)
Acquisitions / divestitures	—	—	—	—
Plan participants' contributions	0.3	0.4	0.2	0.2
Retiree Medicare drug subsidy	—	—	—	—
Cumulative translation adjustments	(0.2)	0.2	—	—
<b>Fair value of plan assets at end of year</b>	<b>\$ 140.7</b>	<b>\$ 124.7</b>	<b>\$ —</b>	<b>\$ —</b>

The following table sets forth the funded status of the Pension Plans and Post-Retirement Benefits and the related amounts recognized on the Company's Consolidated Balance Sheet at May 31:

	Pension Plans		Post-Retirement Benefits	
	2007	2006	2007	2006
Funded status at end of year	\$ (32.2)	\$ (37.3)	\$ (33.1)	\$ (31.1)
Unrecognized net actuarial loss	—	43.4	—	19.3
Unrecognized prior service cost	—	(1.3)	—	(8.4)
<b>Accrued benefit asset (liability)</b>	<b>\$ (32.2)</b>	<b>\$ 4.8</b>	<b>\$ (33.1)</b>	<b>\$ (20.2)</b>

**Amounts recognized in the Consolidated Balance Sheet**

	Pension Plans		Post-Retirement Benefits	
	2007	2006	2007	2006
Current assets	\$ 0.4	\$ —	\$ —	\$ —
Current liabilities	—	—	(2.9)	—
Non-current liabilities	(32.6)	(28.7)	(30.2)	(20.2)
Prepaid benefit cost	—	4.8	—	—
Intangible assets	—	0.1	—	—
Accumulated other comprehensive loss	—	28.6	—	—
<b>Net amounts recognized</b>	<b>\$ (32.2)</b>	<b>\$ 4.8</b>	<b>\$ (33.1)</b>	<b>\$ (20.2)</b>

The following amounts were recognized in Accumulated other comprehensive loss for the Pension Plans and Post-Retirement Benefits in the Company's Consolidated Balance Sheet at May 31, 2007:

	Pension Plans	Post-Retirement Benefits	Total
Net actuarial loss	\$ (38.3)	\$ (19.8)	\$ (58.1)
Net prior service credit	1.1	7.5	8.6
<b>Net amount recognized in accumulated other comprehensive loss</b>	<b>\$ (37.2)</b>	<b>\$ (12.3)</b>	<b>\$ (49.5)</b>

The estimated net loss and prior service credit for the Pension Plans that will be amortized from accumulated other comprehensive loss into net periodic benefit cost over the Company's fiscal year ending May 31, 2008 are \$2.3 and \$(0.3), respectively. The estimated net loss and prior service credit cost for the Post-Retirement Benefits that will be amortized from Accumulated other comprehensive loss into net periodic benefit cost over the fiscal year ending May 31, 2008 are \$1.5 and \$(0.9), respectively.



The accumulated benefit obligation for the Pension Plans was \$164.3 and \$149.4 at May 31, 2007 and 2006, respectively. The following table sets forth information with respect to the Pension Plans with accumulated benefit obligations in excess of plan assets for the fiscal years ended May 31:

	2007	2006
Projected benefit obligations	\$ 165.1	\$ 153.9
Accumulated benefit obligations	157.0	142.3
Fair value of plan assets	132.5	115.7

The following table sets forth the net periodic cost for the Pension Plans and Post-Retirement Benefits for the fiscal years ended May 31:

	Pension Plans			Post-Retirement Benefits		
	2007	2006	2005	2007	2006	2005
Components of net periodic benefit cost:						
Service cost	\$ 8.1	\$ 8.0	\$ 7.0	\$ 0.2	\$ 0.2	\$ 0.4
Interest cost	9.3	8.3	8.3	1.9	1.8	2.0
Expected return on assets	(9.6)	(8.8)	(8.7)	—	—	—
Net amortization and deferrals	(0.2)	0.2	0.2	(0.8)	1.0	0.8
Recognized net actuarial loss	2.8	3.7	2.3	1.5	—	—
<b>Net periodic benefit cost</b>	<b>\$ 10.4</b>	<b>\$ 11.4</b>	<b>\$ 9.1</b>	<b>\$ 2.8</b>	<b>\$ 3.0</b>	<b>\$ 3.2</b>

#### Plan Assets

The Company's investment policy with regard to the assets in the Pension Plans is to actively manage, within acceptable risk parameters, certain asset classes where the potential exists to outperform the broader market.

The following table sets forth the total weighted average asset allocations for the Pension Plans by asset category at May 31:

	2007	2006
Small cap equities	13.1%	12.1%
International equities	14.7	13.8
Index fund equities	42.3	41.3
Bonds and fixed interest products	29.0	31.8
Real estate	0.9	0.9
Other	—	0.1
	<b>100.0%</b>	<b>100.0%</b>

The following table sets forth the weighted average target asset allocations for the Pension Plans included in the Company's investment policy:

	Pension Plan	U.K. Pension Plan	Grolier Canada Pension Plan
Equity	65.0%	68.0%	35.0%
Debt and cash equivalents	35.0	25.0	65.0
Real estate	—	7.0	—
	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>

## Contributions

In fiscal 2008, the Company expects to contribute \$8.4 to the Pension Plan.

## Estimated future benefit payments

The following table sets forth the expected future benefit payments under the Pension Plans and the Post-Retirement Benefits by fiscal year:

	Pension Benefits	Post-Retirement	
		Benefit Payments	Medicare Subsidy Receipts
2008	\$ 10.7	\$ 2.9	\$ 0.5
2009	10.9	3.0	0.5
2010	10.2	3.2	0.5
2011	10.8	3.3	0.5
2012	10.5	3.3	0.6
2013-2017	54.2	17.1	3.0

## Assumed health care cost trend rates at May 31:

	2007	2006
Health care cost trend rate assumed for the next fiscal year	8.0%	9.0%
Rate to which the cost trend is assumed to decline (the ultimate trend rate)	5.0%	5.0%
Year that the rate reaches the ultimate trend rate	2013	2012

Assumed health care cost trend rates could have a significant effect on the amounts reported for the post-retirement health care plan. A one percentage point change in assumed health care cost trend rates would have the following effects:

	2007	2006
Total service and interest cost	\$ 0.2	\$ 0.2
Post-retirement benefit obligation	2.6	2.5

## Defined contribution plans

The Company also provides defined contribution plans for certain eligible employees. In the United States, the Company sponsors a 401(k) retirement plan and has contributed \$6.3, \$6.8 and \$6.2 for fiscal 2007, 2006 and 2005, respectively. For its internationally based employees, the contributions under these plans totaled \$7.0, \$6.1 and \$4.6 for fiscal 2007, 2006 and 2005, respectively.

## 10. EARNINGS PER SHARE

The following table sets forth the computation of basic and diluted earnings per share for the fiscal years ended May 31:

(Amounts in millions, except per share data)			
	2007	2006	2005
Net income for basic and diluted earnings per share	\$ 60.9	\$ 68.6	\$ 64.3
Weighted average Shares of Class A Stock and Common Stock outstanding for basic earnings per share	42.5	41.6	40.0
Dilutive effect of Common Stock issued pursuant to stock-based benefit plans	0.5	0.6	0.8
Adjusted weighted average Shares of Class A Stock and Common Stock outstanding for diluted earnings per share	43.0	42.2	40.8
Earnings per share of Class A Stock and Common Stock:			
Basic	\$ 1.43	\$ 1.65	\$ 1.61
Diluted	\$ 1.42	\$ 1.63	\$ 1.58



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## 11. OTHER INCOME

On February 28, 2007, the Company sold its remaining investment in the holding company of Editions Gallimard, a French publisher, resulting in a pre-tax gain of \$3.0, or \$0.04 per diluted share.

## 12. ACQUISITIONS

On May 30, 2007, Scholastic purchased all of the outstanding shares of a company that provides school consulting and professional development services for \$10.0 in cash, \$5.0 payable at the closing date and \$1.0 payable on the anniversary of the closing date in each of the subsequent five years.

## 13. OTHER FINANCIAL DATA

Deferred promotion costs were \$50.1 and \$49.8 at May 31, 2007 and 2006, respectively. Promotion costs expensed were \$112.9, \$85.5 and \$81.1 for the fiscal years ended May 31, 2007, 2006 and 2005, respectively. Promotional expense consists of \$104.5, \$77.9 and \$73.9 for continuity program promotions and \$8.4, \$7.6 and \$7.2 for magazine advertising for fiscal 2007, 2006 and 2005, respectively.

Other advertising expenses were \$133.5, \$160.5 and \$156.5 for the fiscal years ended May 31, 2007, 2006 and 2005, respectively.

Prepublication costs were \$112.7 and \$115.9 at May 31, 2007 and 2006, respectively. The Company amortized \$51.7, \$50.9 and \$53.9 of prepublication costs for the fiscal years ended May 31, 2007, 2006 and 2005, respectively.

Other accrued expenses include a reserve for unredeemed credits issued in conjunction with the Company's school-based book club and book fair operations of \$12.3 and \$11.9 at May 31, 2007 and 2006, respectively.

The components of Accumulated other comprehensive loss at May 31, 2007 and 2006 include \$2.4 and \$1.4, respectively, of foreign currency translation and \$32.1 (\$17.4 net of tax) and \$18.7 (\$9.9 net of tax), respectively, of minimum pension liability.

## 14. SUBSEQUENT EVENT

On June 1, 2007, Scholastic Corporation entered into an agreement with a major financial institution to repurchase \$200.0 of its outstanding Common Stock under a "collared" Accelerated Share Repurchase (the "ASR") Agreement. Under the ASR the Company initially received 5.1 million shares of Common Stock from the financial institution on June 28, 2007, representing the minimum number of shares to be received based on a calculation using the "cap" or high end of the price range of the collar. The maximum number of shares of Common Stock that can be received under the ASR is 6.2 million shares. The actual number of shares to be received by the Corporation from the financial institution will be determined based on the weighted average market price of the Common Stock during the four-month period after the initial execution date. Based on the applicable accounting literature, the total purchase price of \$200.0 will be reflected in the treasury stock component of Stockholders' Equity in the first quarter of 2008. For a discussion of the financing arrangement entered into by the Corporation in connection with the ASR, see Note 3, "Debt-2012 Credit Agreement."



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**Report of Independent Registered Public Accounting Firm**

**THE BOARD OF DIRECTORS AND STOCKHOLDERS OF SCHOLASTIC CORPORATION**

We have audited the accompanying consolidated balance sheets of Scholastic Corporation as of May 31, 2007 and 2006, and the related consolidated statements of income, changes in stockholders' equity and comprehensive income and cash flows for each of the three years in the period ended May 31, 2007. Our audits also included the financial statement schedule included in the Index at Item 15(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 based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). 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 assessing 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 financial statements referred to above present fairly, in all material respects, the consolidated financial position of Scholastic Corporation at May 31, 2007 and 2006, and the consolidated results of its operations and its cash flows for each of the three years in the period ended May 31, 2007, in conformity with U.S. generally accepted accounting principles. Also, in our opinion, the related financial statements 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 discussed in Note 1 to the financial statements, effective July 1, 2006, Scholastic Corporation adopted Statement of Financial Accounting Standards No. 123(R), "Share-Based Payments," using the modified-prospective transition method; and effective May 31, 2007, the Statement of Financial Accounting Standards No. 158, "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans," an amendment of FASB Statement No. 87, 88, 106 and 132(R).

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the effectiveness of Scholastic Corporation's internal control over financial reporting as of May 31, 2007, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated July 27, 2007 expressed an unqualified opinion thereon.

*Ernst + Young LLP*

New York, New York  
July 27, 2007



**Report of Independent Registered Public Accounting Firm**

**THE BOARD OF DIRECTORS AND STOCKHOLDERS OF SCHOLASTIC CORPORATION**

We have audited management's assessment, included in the accompanying Management's Report on Internal Control Over Financial Reporting, that Scholastic Corporation maintained effective internal control over financial reporting as of May 31, 2007 based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO criteria). Scholastic Corporation's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express an opinion on management's assessment and an opinion on the effectiveness of the company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, evaluating management's assessment, testing and evaluating the design and operating effectiveness of internal control, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, management's assessment that Scholastic Corporation maintained effective internal control over financial reporting as of May 31, 2007, is fairly stated, in all material respects, based on the COSO criteria. Also, in our opinion, Scholastic Corporation maintained, in all material respects, effective internal control over financial reporting as of May 31, 2007, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Scholastic Corporation as of May 31, 2007 and 2006 and the related consolidated statements of income, changes in stockholders' equity and comprehensive income, and cash flows for each of the three years in the period ended May 31, 2007 and our report dated July 27, 2007 expressed an unqualified opinion thereon.

*Ernst + Young LLP*

New York, New York  
July 27, 2007



## Supplementary Financial Information

Summary of Quarterly Results of Operations

(Unaudited, amounts in millions except per share data)

	First Quarter	Second Quarter	Third Quarter <sup>(1)(2)</sup>	Fourth Quarter <sup>(2)(3)</sup>	Fiscal Year Ended May 31,
<b>2007</b>					
Revenues	\$ 334.9	\$ 735.5	\$ 497.0	\$ 611.7	\$ 2,179.1
Cost of goods sold	171.8	323.1	242.5	267.9	1,005.3
Net income (loss)	(46.9)	75.1	(7.7)	40.4	60.9
Earnings (loss) per share of Class A and Common Stock:					
Basic	\$ (1.12)	\$ 1.77	\$ (0.18)	\$ 0.94	\$ 1.43
Diluted	\$ (1.12)	\$ 1.75	\$ (0.18)	\$ 0.93	\$ 1.42
<b>2006</b>					
Revenues	\$ 498.4	\$ 696.7	\$ 487.7	\$ 601.0	\$ 2,283.8
Cost of goods sold	293.0	302.0	244.6	263.5	1,103.1
Net income (loss)	(21.2)	66.9	(15.5)	38.4	68.6
Earnings (loss) per share of Class A and Common Stock:					
Basic	\$ (0.52)	\$ 1.61	\$ (0.37)	\$ 0.92	\$ 1.65
Diluted	\$ (0.52)	\$ 1.58	\$ (0.37)	\$ 0.91	\$ 1.63

(1) In the third quarter of fiscal 2007, the Company sold its remaining portion of an equity investment resulting in a pre-tax gain of \$3.0, or \$0.04 per diluted share.

(2) The third and fourth quarters of fiscal 2006 include pre-tax bad debt expense of \$1.5, or \$0.02 per diluted share, and \$1.4, or \$0.02 per diluted share, respectively, associated with the bankruptcy of a customer.

(3) The fourth quarter of fiscal 2006 includes pre-tax costs of \$3.2, or \$0.05 per diluted share, related to the write-down of certain print reference set assets.

### Item 9 | Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

None.



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## Item 9A | Controls and Procedures

The Chief Executive Officer and Chief Financial Officer of the Corporation, after conducting an evaluation, together with other members of the Company's management, of the effectiveness of the design and operation of the Corporation's disclosure controls and procedures as of May 31, 2007, have concluded that the Corporation's disclosure controls and procedures were effective to ensure that information required to be disclosed by the Corporation in its reports filed or submitted under the Securities Exchange Act of 1934 (the "Exchange Act") is recorded, processed, summarized, and reported within the time periods specified in the rules and forms of the SEC and accumulated and communicated to members of the Company's management, including the Chief Executive Officer and Chief Financial Officer, to allow timely decisions regarding required disclosure.

The management of the Company is responsible for establishing and maintaining adequate internal control over financial reporting for the Corporation. A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate. The Corporation's Chief Executive Officer and Chief Financial Officer, after conducting an evaluation, together with other members of Scholastic management, of the effectiveness of the Corporation's internal control over financial reporting based on the framework in *Internal Control — Integrated Framework* issued by the *Committee of Sponsoring Organizations of the Treadway Commission*, concluded that the Corporation's internal control over financial reporting was effective as of May 31, 2007.

Ernst & Young LLP, an independent registered public accounting firm, has issued an attestation report on this assessment of the effectiveness of the Corporation's internal control over financial reporting as of May 31, 2007, which is included herein. There was no change in the Corporation's internal control over financial reporting that occurred during the quarter ended May 31, 2007 that materially affected, or is reasonably likely to materially affect, the Corporation's internal control over financial reporting.

## Item 9B | Other Information

None.



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## Part III

### **Item 10 | Directors, Executive Officers and Corporate Governance**

Information required by this item is incorporated herein by reference from the Corporation's definitive proxy statement to be filed with the SEC pursuant to Regulation 14A under the Exchange Act. Certain information regarding the Corporation's Executive Officers is set forth in Part I – Item 1 – Business.

### **Item 11 | Executive Compensation**

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

### **Item 12 | Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters**

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

### **Item 13 | Certain Relationships and Related Transactions, and Director Independence**

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

### **Item 14 | Principal Accounting Fees and Services**

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



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## Part IV

### Item 15 | Exhibits and Financial Statement Schedules

(a)(1) Financial Statements:

The following consolidated financial statements are included in Part II, Item 8, "Consolidated Financial Statements and Supplementary Data":

Consolidated Statements of Income for the years ended May 31, 2007, 2006 and 2005

Consolidated Balance Sheets at May 31, 2007 and 2006

Consolidated Statements of Changes in Stockholders' Equity and Comprehensive Income for the years ended May 31, 2007, 2006 and 2005

Consolidated Statements of Cash Flows for the years ended May 31, 2007, 2006 and 2005 Notes to Consolidated Financial Statements

(a)(2) Financial Statement Schedule:

and (c)

The following consolidated financial statement schedule is included with this report: 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) and (b)

Exhibits:

- 3.1 Amended and Restated Certificate of Incorporation of the Corporation, as amended to date (incorporated by reference to the Corporation's Quarterly Report on Form 10-Q as filed with the SEC on October 5, 2006 (the "August 31, 2006 10-Q")).
- 3.2 Bylaws of the Corporation, amended and restated as of March 16, 2000 (incorporated by reference to the Corporation's Quarterly Report on Form 10-Q as filed with the SEC on April 14, 2000, SEC File No. 19860).
- 4.1 Credit Agreement, dated as of June 1, 2007, among the Corporation and Scholastic Inc., as borrowers, the Initial Lenders named therein, JP Morgan Chase Bank, N.A., as administrative agent, J.P. Morgan Securities Inc. and Bank of America Securities LLC., as joint lead arrangers and joint bookrunners, Bank of America, N. A. and Wachovia Bank, N. A., as syndication agents, and SunTrust Bank and The Royal Bank of Scotland, plc, as Documentation Agents.
- 4.2\* Indenture dated April 4, 2003 for 5% Notes due 2013 issued by the Corporation.



- 10.1\*\* Scholastic Corporation 1995 Stock Option Plan, effective as of September 21, 1995 (incorporated by reference to the Corporation’s Registration Statement on Form S-8 (Registration No. 33-98186) as filed with the SEC on October 16, 1995), together with Amendment No. 1, effective September 16, 1998 (incorporated by reference to the Corporation’s Quarterly Report on Form 10-Q as filed with the SEC on October 15, 1998, SEC File No. 000-19860), Amendment No. 2, effective as of July 18, 2001 (incorporated by reference to the Corporation’s Annual Report on Form 10-K as filed with the SEC on August 24, 2001, SEC File No. 000-19860), Amendment No. 3, effective as of May 25, 2006 (incorporated by reference to the Corporation’s Annual Report on Form 10-K as filed with the SEC on August 9, 2006 (the “2006 10-K”)), and Amendment No. 4, dated as of March 21, 2007 (incorporated by reference to the Corporation’s Quarterly Report on Form 10-Q as filed with the SEC on March 30, 2007 (the “February 28, 2007 10-Q”)).
- 10.2\*\* Scholastic Corporation Management Stock Purchase Plan, amended and restated effective as of January 1, 2005 (incorporated by reference to the 2006 10-K).
- 10.3\*\* Scholastic Corporation 1997 Outside Directors’ Stock Option Plan, amended and restated as of May 25, 1999 (incorporated by reference to the Corporation’s Annual Report on Form 10-K as filed with the SEC on August 23, 1999, SEC File No. 000-19860 (the “1999 10-K”)), together with Amendment No. 1 dated September 20, 2001 (incorporated by reference to the Corporation’s Quarterly Report on Form 10-Q as filed with the SEC on January 14, 2002, SEC File No. 000-19860), Amendment No. 2, effective as of September 23, 2003 (incorporated by reference to Appendix B to the Corporation’s definitive Proxy Statement as filed with the SEC on August 19, 2003), and Amendment No. 3, effective as of May 25, 2006 (incorporated by reference to the 2006 10-K).
- 10.4\*\* Scholastic Corporation Director’s Deferred Compensation Plan, amended and restated effective January 1, 2005 (incorporated by reference to the Corporation’s Quarterly Report on Form 10-Q as filed with the SEC on April 7, 2006 (the “February 28, 2006 10-Q”)).
- 10.5\*\* Scholastic Corporation Executive Performance Incentive Plan, effective as of June 1, 1999 (incorporated by reference to the Corporation’s Quarterly Report on Form 10-Q as filed with the SEC on October 15, 1999, SEC File No. 000-19860).
- 10.6\*\* Scholastic Corporation 2001 Stock Incentive Plan (the “2001 Plan”) (incorporated by reference to Appendix A of the Corporation’s definitive Proxy Statement as filed with the SEC on August 24, 2001, SEC File No. 000-19860), together with Amendment No. 1, effective as of May 25, 2006 (incorporated by reference to the 2006 10-K), and Amendment No. 2, dated as of March 20, 2007 (incorporated by reference to the February 28, 2007 10-Q).
- 10.7\*\* Form of Stock Unit Agreement under the 2001 Plan (incorporated by reference to the Corporation’s Quarterly Report on Form 10-Q as filed with the SEC on January 9, 2007 (the “November 30, 2006 10-Q”)).
- 10.8\*\* Amended and Restated Guidelines for Stock Units granted under the 2001 Plan (incorporated by Reference to the August 31, 2006 10-Q).
- 10.9\*\* Form of Option Agreement under the 2001 Plan (incorporated by reference to the November 30, 2006 10-Q).



- 10.10\*\* Scholastic Corporation 2004 Class A Stock Incentive Plan (the “Class A Plan”) (incorporated by reference to Appendix A to Scholastic Corporation’s definitive Proxy Statement as filed with the SEC on August 2, 2004), Amendment No. 1, effective as of May 25, 2006 (incorporated by reference to the 2006 10-K), Amendment No. 2, dated July 18, 2006 (incorporated by reference to Appendix C to the Corporation’s definitive Proxy Statement as filed with the SEC on August 1, 2006), and Amendment No. 3, dated as of March 20, 2007 (incorporated by reference to the February 28, 2007 10-Q).
- 10.11\*\* Form of Class A Option Agreement under the Class A Plan (incorporated by reference to the Corporation’s Annual Report on Form 10-K as filed with the SEC on August 8, 2005).
- 10.12\*\* Deferred Compensation Agreement between Scholastic Inc. and Ernest Fleishman, as amended and restated effective January 1, 2005 (incorporated by reference to the February 28, 2006 10-Q).
- 10.13\*\* Agreement between Lisa Holton and Scholastic Inc., dated August 2, 2006, with regard to certain severance agreements (incorporated by reference to the 2006 10-K).
- 10.14\*\* Agreement between Mary A. Winston and Scholastic Inc., dated January 16, 2007, with regard to certain severance arrangements (incorporated by reference to the February 28, 2007 10-Q).
- 10.15\*\* Agreement between Maureen O’Connell and Scholastic Inc., dated February 12, 2007, regarding employment (incorporated by reference to the February 28, 2007 10-Q).
- 10.16 Amended and Restated Lease, effective as of August 1, 1999, between ISE 555 Broadway, LLC, and Scholastic Inc., tenant, for the building known as 555 Broadway, NY, NY (incorporated by reference to the 1999 10-K).
- 10.17 Amended and Restated Sublease, effective as of October 9, 1996, between Kalodop Corp. and Scholastic Inc., as subtenant, for the premises known as 557 Broadway, NY, NY (incorporated reference to the 1999 10-K).
- 21 Subsidiaries of the Corporation.
- 23 Consent of Ernst & Young LLP.
- 31.1 Certification of the Chief Executive Officer of the Corporation filed pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 31.2 Certification of the Chief Financial Officer of the Corporation filed pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 32 Certifications of the Chief Executive Officer and the Chief Financial Officer of the Corporation pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- \* Such long-term debt does not individually amount to more than 10% of the total assets of the Corporation 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 Corporation hereby agrees to furnish a copy of any such instrument to the SEC upon request.
- \*\* The referenced exhibit is a management contract or compensation plan or arrangement described in Item 601(b) (10) (iii) of Regulation S-K.



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**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: July 30, 2007

SCHOLASTIC CORPORATION

By: /s/ Richard Robinson

Richard Robinson, Chairman of the Board,  
President and Chief Executive Officer

**Power of Attorney**

KNOW ALL MEN BY THESE PRESENTS, that each person whose signature appears below constitutes and appoints Richard Robinson his or her true and lawful attorney-in-fact and agent, with power of substitution and resubstitution, for him or her and in his or her name, place and stead, in any and all capacities, to sign any and all amendments to this Annual Report on Form 10-K, and to file the same, with all exhibits thereto, and other documents in connection therewith, with the Securities and Exchange Commission, granting unto said attorney-in-fact and agent full power and authority to do and perform each and every act and thing necessary and requisite to be done, as fully and to all the intents and purposes as he might or could do in person, hereby ratifying and confirming all that said attorney-in-fact and agent may lawfully do or cause to be done by virtue hereof.

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.

<b>Signature</b>	<b>Title</b>	<b>Date</b>
<u>/s/ Richard Robinson</u> Richard Robinson	Chairman of the Board, President and Chief Executive Officer and Director (principal executive officer)	July 30, 2007
<u>/s/ Maureen O'Connell</u> Maureen O'Connell	Executive Vice President, Chief Administrative Officer and Chief Financial Officer (principal financial officer and principal accounting officer)	July 30, 2007
<u>/s/ Rebeca M. Barrera</u> Rebeca M. Barrera	Director	July 30, 2007
<u>/s/ Ramon C. Cortines</u> Ramon C. Cortines	Director	July 30, 2007
<u>/s/ John L. Davies</u> John L. Davies	Director	July 30, 2007



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<b>Signature</b>	<b>Title</b>	<b>Date</b>
<b>/s/ Andrew S. Hedden</b> _____ <b>Andrew S. Hedden</b>	Director	July 30, 2007
<b>/s/ Mae C. Jemison</b> _____ <b>Mae C. Jemison</b>	Director	July 30, 2007
<b>/s/ Peter M. Mayer</b> _____ <b>Peter M. Mayer</b>	Director	July 30, 2007
<b>/s/ John G. McDonald</b> _____ <b>John G. McDonald</b>	Director	July 30, 2007
<b>/s/ Augustus K. Oliver</b> _____ <b>Augustus K. Oliver</b>	Director	July 30, 2007
<b>/s/ Richard M. Spaulding</b> _____ <b>Richard M. Spaulding</b>	Director	July 30, 2007



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# Scholastic Corporation

## Financial Statement Schedule

ANNUAL REPORT ON FORM 10-K

YEAR ENDED MAY 31, 2007

ITEM 15(c)



# Schedule II

## Valuation and Qualifying Accounts and Reserves

(Amounts in millions)

Years Ended May 31,

	Balance at Beginning of Year	Expensed	Write-Offs and Other	Balance at End of Year
<b>2007</b>				
Allowance for doubtful accounts	\$ 52.8	\$ 71.1	\$ 65.9	\$ 58.0
Reserve for returns	58.4	128.1	135.8 <sup>(1)</sup>	50.7
Reserve for obsolescence	58.9	29.4	26.5	61.8
Reserve for royalty advances	54.7	3.7	0.0	58.4
<b>2006</b>				
Allowance for doubtful accounts	\$ 47.3	\$ 59.1	\$ 53.6	\$ 52.8
Reserve for returns	42.0	160.9	144.5 <sup>(1)</sup>	58.4
Reserve for obsolescence	58.5	31.3	30.9	58.9
Reserve for royalty advances	52.1	3.1	0.5	54.7
<b>2005</b>				
Allowance for doubtful accounts	\$ 68.3	\$ 62.2	\$ 83.2	\$ 47.3
Reserve for returns	52.6	130.8	141.4 <sup>(1)</sup>	42.0
Reserve for obsolescence	59.2	38.7	39.4	58.5
Reserve for royalty advances	49.8	3.0	0.7	52.1

(1) Represents actual returns charged to the reserve.





**CREDIT AGREEMENT**

Dated as of June 1, 2007

Among

**SCHOLASTIC CORPORATION**  
and  
**SCHOLASTIC INC.**  
as Borrowers

and

**THE INITIAL LENDERS NAMED HEREIN**

as Initial Lenders

and

**SUNTRUST BANK and THE ROYAL BANK OF SCOTLAND plc**

as Documentation Agents

and

**BANK OF AMERICA, N.A. and WACHOVIA BANK, NATIONAL ASSOCIATION**

as Syndication Agents

and

**JPMORGAN CHASE BANK, NATIONAL ASSOCIATION**

as Administrative Agent

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**J.P. MORGAN SECURITIES INC.**

and

**BANC OF AMERICA SECURITIES LLC**

as Joint Lead Arrangers and Joint Bookrunners

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## Exhibits

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Exhibit A-2	-	Form of Competitive Bid Note
Exhibit A-3	-	Form of Term Loan Note
Exhibit B-1	-	Form of Notice of Revolving Credit Borrowing
Exhibit B-2	-	Form of Notice of Competitive Bid Borrowing
Exhibit B-3	-	Form of Notice of Term Loan Borrowing
Exhibit C	-	Form of Assignment and Acceptance

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- Exhibit D - Form of Opinion of Counsel for the Borrowers
  - Exhibit E - Form of Financial Covenants Compliance Certificate
  - Exhibit F - List of Closing Documents
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CREDIT AGREEMENT

Dated as of June 1, 2007

This CREDIT AGREEMENT is by and among SCHOLASTIC CORPORATION, a Delaware corporation (the "Holding Company"), and SCHOLASTIC INC., a New York corporation (the "Operating Company"; the Holding Company and the Operating Company are, collectively, the "Borrowers" and, individually, each a "Borrower"), the banks, financial institutions and other institutional lenders (the "Initial Lenders") listed on the signature pages hereof, SUNTRUST BANK and THE ROYAL BANK OF SCOTLAND plc, as documentation agents, BANK OF AMERICA, N.A. and WACHOVIA BANK, NATIONAL ASSOCIATION, as syndication agents, and JPMORGAN CHASE BANK, NATIONAL ASSOCIATION ("JPMCB"), as administrative agent (the "Agent") for the Lenders (as hereinafter defined). The parties hereto hereby agree as follows:

ARTICLE I

DEFINITIONS AND ACCOUNTING TERMS

SECTION 1.01 Certain Defined Terms.

As used in this Agreement, the following terms shall have the following meanings (such meanings to be equally applicable to both the singular and plural forms of the terms defined):

"Advance" means a Revolving Credit Advance, a Term Loan Advance, a Swingline Advance, a Competitive Bid Advance or a Letter of Credit Advance.

"Affiliate" means, as to any Person, any other Person that, directly or indirectly, controls, is controlled by or is under common control with such Person or is a director or officer of such Person. For purposes of this definition, the term "control" (including the terms "controlling", "controlled by" and "under common control with") of a Person means the possession, direct or indirect, of the power to vote 5% or more of the Voting Stock of such Person or to direct or cause the direction of the management and policies of such Person, whether through the ownership of Voting Stock, by contract or otherwise.

"Agent's Account" means, at any time, the account of the Agent most recently designated by it for the applicable purpose by notice to the Lenders.

"Applicable Lending Office" means, with respect to each Lender, such Lender's Domestic Lending Office in the case of a Base Rate Advance and such Lender's Eurodollar Lending Office in the case of a Eurodollar Rate Advance and, in the case of a Competitive Bid Advance, the office of such Lender notified by such Lender to the Agent as its Applicable Lending Office with respect to such Competitive Bid Advance.

"Applicable Rate" means (a) for Base Rate Advances and any Swingline Advance, 0% per annum, (b) for Eurodollar Rate Advances and (c) for the facility fee, a percentage per annum determined by reference to the Consolidated Debt Ratio as of the most recent determination date, provided that until the Applicable Pricing Date, the "Applicable Rate" shall be the applicable rate per annum set forth below under the Applicable Pricing Level:

Consolidated Debt Ratio	Applicable Rate for Eurodollar Rate Advances (Revolving Loan Advances)	Applicable Rate for Eurodollar Rate Advances (Term Loan Advances)	Applicable Rate for Facility Fee
<u>Level 1</u> Less than 0.20 to 1.0	0.50%	0.625%	0.125%
<u>Level 2</u> Greater than or equal to 0.20 to 1.0 but less than 0.30 to 1.0	0.60%	0.750%	0.150%
<u>Level 3</u> Greater than or equal to 0.30 to 1.0 but less than 0.40 to 1.0	0.70%	0.875%	0.175%
<u>Level 4</u> Greater than or equal to 0.40 to 1.0 but less than 0.50 to 1.0	0.80%	1.00%	0.200%
<u>Level 5</u> Greater than or equal to 0.50 to 1.0	1.00%	1.25%	0.250%

For purposes of the foregoing, subject to the proviso above, (a) the Applicable Rate shall be determined as of the end of each fiscal quarter of the Holding Company based upon the Holding Company's annual or quarterly Consolidated financial statements delivered pursuant to Section 5.01(a), and each change in the Applicable Rate resulting from a change in the Consolidated Debt Ratio shall be effective during the period commencing on and including the date that is five (5) Business Days after such date of delivery to the Agent of such Consolidated financial statements indicating such change and ending on the date immediately preceding the effective date of the next such change, provided that the Consolidated Debt Ratio shall be deemed to be in Level 5 (A) at any time that an Event of Default has occurred and is continuing or (B) at the option of the Agent or at the request of the Required Lenders if the Borrowers fail to deliver the annual or quarterly Consolidated financial statements required to be delivered pursuant to Section 5.01, during the period beginning five (5) Business Days following the expiration of the time for delivery thereof until the date that is five (5) Business Days after such consolidated financial statements are delivered.

"Applicable Pricing Date" means (i) December 1, 2007 if the Term Loan Borrowing has been made and (ii) the date of delivery to the Agent, pursuant to Section 5.01, of the Holding Company's Consolidated financial information for the Holding Company's fiscal quarter ending on or about May 31, 2007 if the Term Loan Borrowing has not been made.

"Applicable Pricing Level" means (i) Level 4 if the Term Loan Borrowing has been made and (ii) Level 2 if the Term Loan Borrowing has not been made.

“Approved Fund” means any Person (other than a natural person) that is engaged in making, purchasing, holding or investing in bank loans and similar extensions of credit in the ordinary course of its business and that is administered or managed by (a) a Lender, (b) an Affiliate of a Lender or (c) an entity or an Affiliate of an entity that administers or manages a Lender.

“Assignment and Acceptance” means an assignment and acceptance entered into by a Lender and an Eligible Assignee, and accepted by the Agent, in substantially the form of Exhibit C hereto.

“Assuming Lender” has the meaning specified in Section 2.18(d).

“Assumption Agreement” has the meaning specified in Section 2.18(d)(ii).

“Available Amount” of any Letter of Credit means, at any time, the maximum amount available to be drawn under such Letter of Credit at such time (assuming compliance at such time with all conditions to drawing).

“Base Rate” means, for any day, a fluctuating interest rate per annum in effect from time to time, which rate per annum shall at all times be equal to the higher of:

- (a) the Prime Rate in effect on such day; and
- (b) ½ of one percent per annum above the Federal Funds Rate.

“Base Rate Advance” means a Revolving Credit Advance or Term Loan Advance that bears interest as provided in Section 2.07(a)(i) or a Swingline Advance.

“Borrowing” means a Revolving Credit Borrowing, the Term Loan Borrowing, a Competitive Bid Borrowing or a Swingline Advance.

“Business Day” means a day of the year on which banks are not required or authorized by law to close in New York City and, if the applicable Business Day relates to any Eurodollar Rate Advances or LIBO Rate Advances, on which dealings are carried on in the London interbank market.

“Class”, when used in reference to any Advance or Borrowing, refers to whether such Advance, or the Advances comprising such Borrowing, are Revolving Credit Advances, Term Loan Advances or Swingline Advances.

“Commitment” means a Revolving Credit Commitment or a Term Loan Commitment.

“Commitment Date” has the meaning specified in Section 2.18(b).

“Commitment Schedule” means the Schedule attached hereto identified as such.

“Competitive Bid Advance” means an advance by a Lender to a Borrower as part of a Competitive Bid Borrowing resulting from the competitive bidding procedure described in Section 2.03 and refers to a Fixed Rate Advance or a LIBO Rate Advance.

“Competitive Bid Borrowing” means a borrowing consisting of simultaneous Competitive Bid Advances from each of the Lenders whose offer to make one or more

Competitive Bid Advances as part of such borrowing has been accepted under the competitive bidding procedure described in Section 2.03.

“Competitive Bid Note” means a promissory note of a Borrower payable to the order of any Lender requesting the same, in substantially the form of Exhibit A-2 hereto, evidencing the indebtedness of such Borrower to such Lender resulting from a Competitive Bid Advance made by such Lender.

“Confidential Information” means information that the Borrowers furnish to the Agent or any Lender in a writing or orally designated as confidential, but does not include any such information that is or becomes generally available to the public or that is or becomes available to the Agent or such Lender from a source other than a Borrower not known to such Lender to be bound by a confidentiality obligation.

“Consolidated” refers to the consolidation of accounts in accordance with GAAP.

“Consolidated Debt Ratio” shall mean, as of any time, the ratio of (a) Total Consolidated Debt to (b) the sum of (i) Total Consolidated Debt, (ii) the aggregate value of stockholders’ equity (as set forth in the then most current consolidated balance sheet of the Holding Company) but excluding unrealized gains and losses reflected in other comprehensive income in respect of qualified and non-qualified defined benefit pension plans, as well as other post-retirements benefit plans of the Borrowers and their Consolidated Subsidiaries, and (iii) the aggregate value of all preferred stock (as set forth in the most current consolidated balance sheet of the Holding Company).

“Consolidated Interest Coverage Ratio” shall mean, for any period of the most recent four consecutive fiscal quarters of the Borrowers and their Subsidiaries ending on or before any date of determination, the ratio of (a) the sum of (i) net income (or net loss), (ii) any extraordinary, non-recurring or unusual non-cash losses, (iii) income tax expense, (iv) depreciation expense, (v) amortization expense (but excluding any amortization of prepublication costs and expenses) and (vi) gross interest expense, less (vii) any extraordinary, non-recurring or unusual non-cash gains, to (b) gross interest expense, all as recorded for such period.

“Consolidated Total Assets” means, as of the date of any determination thereof, total assets of the Borrowers and their Consolidated Subsidiaries.

“Convert”, “Conversion” and “Converted” each refers to a conversion of Revolving Credit Advances or Term Loan Advances of one Type into Revolving Credit Advances or Term Loan Advances of the other Type pursuant to Section 2.08 or 2.09.

“Credit Exposure” means, as to any Lender at any time, the sum of (a) such Lender’s Revolving Credit Exposure at such time, plus (b) an amount equal to the aggregate principal amount of its Term Loan Advances outstanding at such time.

“Debt” of any Person means, without duplication, (a) all indebtedness of such Person for borrowed money, (b) all obligations of such Person for the deferred purchase price of property or services (other than trade payables incurred in the ordinary course of such Person’s business), (c) all obligations of such Person evidenced by notes, bonds, debentures or other similar instruments, (d) all obligations of such Person as lessee under leases that have been or should be, in accordance with GAAP, recorded as capital leases, (e) all obligations, contingent or otherwise, of such Person in respect of acceptances, letters of credit or similar extensions of credit (other

than obligations in respect of letters of credit issued to provide for the payment of goods or services, to backstop worker's compensation obligations or as rental security deposits, in each case incurred in the ordinary course of business), (f) all Debt of others referred to in clauses (a) through (e) above or clause (g) below guaranteed directly or indirectly in any manner by such Person, or in effect guaranteed directly or indirectly by such Person through an agreement (1) to pay or purchase such Debt or to advance or supply funds for the payment or purchase of such Debt, (2) to purchase, sell or lease (as lessee or lessor) property, or to purchase or sell services, primarily for the purpose of enabling the debtor to make payment of such Debt or to assure the holder of such Debt against loss, (3) to supply funds to or in any other manner invest in the debtor (including any agreement to pay for property or services irrespective of whether such property is received or such services are rendered) or (4) otherwise to assure a creditor against loss, and (h) all Debt referred to in clauses (a) through (f) above secured by (or for which the holder of such Debt has an existing right, contingent or otherwise, to be secured by) any Lien on property (including, without limitation, accounts and contract rights) owned by such Person, even though such Person has not assumed or become liable for the payment of such Debt.

“Default” means any Event of Default or any event that would constitute an Event of Default but for the requirement that notice be given or time elapse or both.

“Default Termination Notice” has the meaning specified in Section 2.16(a).

“Domestic Lending Office” means, with respect to any Lender, the office of such Lender specified from time to time by such Lender to the Borrowers and the Agent.

“Effective Date” has the meaning specified in Section 3.01.

“Eligible Assignee” means (i) a Lender, (ii) a United States Affiliate of a Lender or an Approved Fund, and (iii) any other commercial bank, finance company, insurance company or other financial institution having total assets in excess of \$1,000,000,000, in each case to the extent approved by the Agent and each Issuing Bank and, so long as no Event of Default has occurred and is continuing and other than in connection with an assignment to a Lender, a United States Affiliate of a Lender or an Approved Fund, the Borrowers, all such approvals not to be unreasonably withheld or delayed; provided, however, that neither Borrower nor an Affiliate of a Borrower shall qualify as an Eligible Assignee.

“Environmental Claim” means (a) any unfulfilled responsibility or liability or unlawful act or omission under any Environmental Law; (b) any tortious act or omission or breach of contract pertaining to any Environmental Substance; or (c) any other violation or claim under any Environmental Law or in respect of any Environmental Substance.

“Environmental Law” and “Environmental Laws” respectively mean any one or more of the applicable laws pertaining to: (a) any emission, discharge, release, runoff, disposal or presence in the environment of any Environmental Substance; (b) any cleanup, containment, manufacturing, treatment, handling, transportation, storage or sale of or other activity pertaining to any Environmental Substance; or (c) any other peril to public or occupational health or safety or to the environment that may be posed by an Environmental Substance.

“Environmental Substance” means any toxic substance, hazardous material, contaminant, waste, pollutant or other similar product or substance that may pose a threat to public or occupational health or safety or to the environment.

“ERISA” means the Employee Retirement Income Security Act of 1974, as amended from time to time, and the regulations promulgated and rulings issued thereunder.

“ERISA Affiliate” means any Person that for purposes of Title IV of ERISA is a member of the Borrowers’ controlled group, or under common control with the Borrowers, within the meaning of Section 414 of the Internal Revenue Code.

“ERISA Event” means (a) (i) the occurrence of a reportable event, within the meaning of Section 4043 of ERISA, with respect to any Plan unless the 30-day notice requirement with respect to such event has been waived by the PBGC, or (ii) the requirements of subsection (1) of Section 4043(b) of ERISA (without regard to subsection (2) of such Section) are met with a contributing sponsor, as defined in Section 4001(a)(13) of ERISA, of a Plan, and an event described in paragraph (9), (10), (11), (12) or (13) of Section 4043(c) of ERISA is reasonably expected to occur with respect to such Plan within the following 30 days; (b) the application for a minimum funding waiver with respect to a Plan; (c) the provision by the administrator of any Plan of a notice of intent to terminate such Plan pursuant to Section 4041(a)(2) of ERISA (including any such notice with respect to a plan amendment referred to in Section 4041(e) of ERISA); (d) the cessation of operations at a facility of either Borrower or any ERISA Affiliate in the circumstances described in Section 4062(e) of ERISA; (e) the withdrawal by either or either Borrower or any ERISA Affiliate from a Multiple Employer Plan during a plan year for which it was a substantial employer, as defined in Section 4001(a)(2) of ERISA; (f) the conditions for the imposition of a lien under Section 302(f) of ERISA shall have been met with respect to any Plan; (g) the adoption of an amendment to a Plan requiring the provision of security to such Plan pursuant to Section 307 of ERISA; or (h) the institution by the PBGC of proceedings to terminate a Plan pursuant to Section 4042 of ERISA, or the occurrence of any event or condition described in Section 4042 of ERISA that constitutes grounds for the termination of, or the appointment of a trustee to administer, a Plan.

“Eurocurrency Liabilities” has the meaning assigned to that term in Regulation D of the Board of Governors of the Federal Reserve System, as in effect from time to time.

“Eurodollar Lending Office” means, with respect to any Lender, the office of such Lender specified by such Lender to the Borrowers and the Agent from time to time.

“Eurodollar Rate” means, for any Interest Period for each Eurodollar Rate Advance comprising part of the same Revolving Credit Borrowing or Term Loan Borrowing, an interest rate per annum equal to the rate per annum obtained by dividing (a) the rate per annum (rounded upward to the nearest whole multiple of 1/100 of 1% per annum) appearing on Reuters BBA LIBOR Rates Page 3750 (or any successor page) as the London interbank offered rate for deposits in U.S. dollars at approximately 11:00 A.M. (London time) two Business Days prior to the first day of such Interest Period for a term comparable to such Interest Period or, if for any reason such rate is not available, the rate per annum at which deposits in U.S. dollars are offered by the principal office of JPMCB in London, England to prime banks in the London interbank market at 11:00 A.M. (London time) two Business Days before the first day of such Interest Period in an amount equal to \$5,000,000 and for a period equal to such Interest Period by (b) a percentage equal to 100% minus the Eurodollar Rate Reserve Percentage for such Interest Period. If the Reuters BBA LIBOR Rates Page 3750 (or any successor page) is unavailable, the Eurodollar Rate for any Interest Period for each Eurodollar Rate Advance comprising part of the same Revolving Credit Borrowing or Term Loan Borrowing shall be determined by the Agent on the basis of the applicable rate furnished to and received by the Agent from JPMCB two Business

Days before the first day of such Interest Period, subject, however, to the provisions of Section 2.08.

“Eurodollar Rate Advance” means a Revolving Credit Advance or a Term Loan Advance that bears interest as provided in Section 2.07(a)(ii).

“Eurodollar Rate Reserve Percentage” for any Interest Period for all Eurodollar Rate Advances or LIBO Rate Advances comprising part of the same Borrowing means the reserve percentage applicable three Business Days before the first day of such Interest Period under regulations issued from time to time by the Board of Governors of the Federal Reserve System (or any successor) for determining the maximum reserve requirement (including, without limitation, any emergency, supplemental or other marginal reserve requirement) for a member bank of the Federal Reserve System in New York City with respect to liabilities or assets consisting of or including Eurocurrency Liabilities (or with respect to any other category of liabilities that includes deposits by reference to which the interest rate on Eurodollar Rate Advances or LIBO Rate Advances is determined) having a term equal to such Interest Period.

“Events of Default” has the meaning specified in Section 6.01.

“Existing Credit Agreement” means the Credit Agreement dated as of March 31, 2004 among the Borrowers, the lenders parties thereto and Citibank, N.A., as agent, as amended, supplemented or otherwise modified prior to the Effective Date.

“Existing Letters of Credit” has the meaning specified in Section 2.16(h).

“Facility” means the Revolving Credit Facility, the Term Loan Facility or the Letter of Credit Facility.

“Federal Funds Rate” means, for any period, a fluctuating interest rate per annum equal for each day during such period to the weighted average (rounded upwards, if necessary, to the next 1/100 of 1%) of the rates on overnight Federal funds transactions with members of the Federal Reserve System arranged by Federal funds brokers, as published for such day (or, if such day is not a Business Day, for the next preceding Business Day) by the Federal Reserve Bank of New York, or, if such rate is not so published for any day that is a Business Day, the average (rounded upwards, if necessary, to the next 1/100 of 1%) of the quotations for such day on such transactions received by the Agent from three Federal funds brokers of recognized standing selected by it.

“Fixed Rate Advances” has the meaning specified in Section 2.03(a)(i).

“GAAP” has the meaning specified in Section 1.03.

“Increase Date” has the meaning specified in Section 2.18(a).

“Increasing Lender” has the meaning specified in Section 2.18(b).

“Information Memorandum” means the information memorandum dated May 2007 used by the Agent in connection with the syndication of the Commitments.

“Interest Period” means, for each Eurodollar Rate Advance comprising part of the same Revolving Credit Borrowing, each Eurodollar Rate Advance comprising part of the same Term

Loan Borrowing, and each LIBO Rate Advance comprising part of the same Competitive Bid Borrowing, the period commencing on the date of such Eurodollar Rate Advance or LIBO Rate Advance or the date of the Conversion of any Base Rate Advance into such Eurodollar Rate Advance and ending on the last day of the period selected by the applicable Borrower pursuant to the provisions below and, thereafter, with respect to Eurodollar Rate Advances, each subsequent period commencing on the last day of the immediately preceding Interest Period and ending on the last day of the period selected by such Borrower pursuant to the provisions below. The duration of each such Interest Period shall be one, two, three or six months, as the applicable Borrower may, upon notice received by the Agent not later than 11:00 A.M. (New York City time) on the third Business Day prior to the first day of such Interest Period, select; provided, however, that:

(i) the Borrowers may not select any Interest Period that ends after the Termination Date;

(ii) Interest Periods commencing on the same date for Eurodollar Rate Advances comprising part of the same Revolving Credit Borrowing or the same Term Loan Borrowing or for LIBO Rate Advances comprising part of the same Competitive Bid Borrowing shall be of the same duration;

(iii) whenever the last day of any Interest Period would otherwise occur on a day other than a Business Day, the last day of such Interest Period shall be extended to occur on the next succeeding Business Day, provided, however, that, if such extension would cause the last day of such Interest Period to occur in the next following calendar month, the last day of such Interest Period shall occur on the next preceding Business Day; and

(iv) whenever the first day of any Interest Period occurs on a day of an initial calendar month for which there is no numerically corresponding day in the calendar month that succeeds such initial calendar month by the number of months equal to the number of months in such Interest Period, such Interest Period shall end on the last Business Day of such succeeding calendar month.

“Internal Revenue Code” means the Internal Revenue Code of 1986, as amended from time to time, and the regulations promulgated and rulings issued thereunder.

“Issuing Bank” means JPMorgan Chase Bank, National Association, Bank of America, N.A. and any other Lender approved as an Issuing Bank by the Agent and the Borrowers (such approval not to be unreasonably withheld or delayed) so long as each such Lender expressly agrees to perform in accordance with their terms all of the obligations that by the terms of this Agreement are required to be performed by it as an Issuing Bank and notifies the Agent of its Applicable Lending Office (which information shall be recorded by the Agent in the Register).

“JPMCB” means JPMorgan Chase Bank, National Association, and its successors and assigns.

“L/C Related Documents” has the meaning specified in Section 2.16(f).

“Lenders” means the Initial Lenders, each Assuming Lender that shall become a party hereto pursuant to Section 2.18 and each Person that shall become a party hereto pursuant to

Section 8.07. Unless the context otherwise requires, the term “Lenders” includes the Swingline Lender.

“Letter of Credit” has the meaning specified in Section 2.16(a).

“Letter of Credit Advance” means an advance made by any Issuing Bank or any Lender pursuant to Section 2.16(d).

“Letter of Credit Agreement” has the meaning specified in Section 2.16(b)(i).

“Letter of Credit Collateral” has the meaning specified in Section 6.02(b).

“Letter of Credit Collateral Account” means a non-interest bearing cash collateral account to be established and maintained by the Agent, over which the Agent shall have sole dominion and control, upon terms as may be satisfactory to the Agent.

“Letter of Credit Facility” means \$50,000,000, as such amount may be reduced at or prior to such time pursuant to Section 2.05.

“LIBO Rate” means, for any Interest Period for all LIBO Rate Advances comprising part of the same Competitive Bid Borrowing, an interest rate per annum equal to the rate per annum obtained by dividing (a) the rate per annum (rounded upward to the nearest whole multiple of 1/100 of 1% per annum) appearing on Reuters BBA LIBOR Rates Page 3750 (or any successor page) as the London interbank offered rate for deposits in U.S. dollars at approximately 11:00 A.M. (London time) two Business Days prior to the first day of such Interest Period for a term comparable to such Interest Period or, if for any reason such rate is not available, the rate per annum at which deposits in U.S. dollars offered by the principal office of JPMCB in London, England to prime banks in the London interbank market at 11:00 A.M. (London time) two Business Days before the first day of such Interest Period in an amount equal to \$5,000,000 and for a period equal to such Interest Period by (b) a percentage equal to 100% minus the Eurodollar Rate Reserve Percentage for such Interest Period. If the Reuters BBA LIBOR Rates Page 3750 (or any successor page) is unavailable, the LIBO Rate for any Interest Period for each LIBO Rate Advance comprising part of the same Competitive Bid Borrowing shall be determined by the Agent on the basis of the applicable rate furnished to and received by the Agent from JPMCB two Business Days before the first day of such Interest Period, subject, however, to the provisions of Section 2.08.

“LIBO Rate Advances” means a Competitive Bid Advance bearing interest based on the LIBO Rate.

“Lien” means any lien, security interest or other charge or encumbrance of any kind, or any other type of preferential arrangement, including, without limitation, the lien or retained security title of a conditional vendor and any easement, right of way or other encumbrance on title to real property.

“Loan Documents” means this Agreement, any Notes and each Letter of Credit Agreement, as each may be amended, supplemented or otherwise modified from time to time.

“Material Adverse Change” means any material adverse change in the assets, business, operations, property or condition (financial or otherwise) of the Borrowers and their Subsidiaries taken as a whole.

“Material Adverse Effect” means a material adverse effect on (a) the assets, business, operations, property or condition (financial or otherwise) of the Borrowers and their Subsidiaries taken as a whole or (b) the ability of the Borrowers to perform their obligations under the Loan Documents.

“Money Market Rate” means such rate of interest per annum (if any) as the Swingline Lender may quote from time to time on any single commercial borrowing for a period of up to 90 days.

“Multiemployer Plan” means a multiemployer plan, as defined in Section 4001(a)(3) of ERISA, to which a Borrower or any ERISA Affiliate is making or accruing an obligation to make contributions, or has within any of the preceding five plan years made or accrued an obligation to make contributions.

“Multiple Employer Plan” means a single employer plan, as defined in Section 4001(a)(15) of ERISA, that (a) is maintained for employees of a Borrower or any ERISA Affiliate and at least one Person other than such Borrower and the ERISA Affiliates or (b) was so maintained and in respect of which such Borrower or any ERISA Affiliate could have liability under Section 4064 or 4069 of ERISA in the event such plan has been or were to be terminated.

“Note” means a Revolving Credit Note, Term Loan Note or a Competitive Bid Note.

“Notice of Competitive Bid Borrowing” has the meaning specified in Section 2.03(a).

“Notice of Issuance” has the meaning specified in Section 2.16(b)(i).

“Notice of Renewal” has the meaning specified in Section 2.16(a).

“Notice of Revolving Credit Borrowing” has the meaning specified in Section 2.02(a).

“Notice of Term Loan Borrowing” has the meaning specified in Section 2.02(a).

“Notice of Termination” has the meaning specified in Section 2.16(a).

“PBGC” means the Pension Benefit Guaranty Corporation (or any successor).

“Permitted Liens” means each of the following: (a) Liens for taxes, assessments and governmental charges or levies to the extent not required to be paid under Section 5.01(e) hereof; (b) Liens imposed by law, such as materialmen’s, mechanics’, carriers’, workmen’s and repairmen’s Liens and other similar Liens arising in the ordinary course of business securing obligations that are not overdue for a period of more than 30 days or are being contested by good faith by appropriate proceedings and as to which appropriate reserves are being maintained; (c) pledges or deposits to secure obligations under workers’ compensation laws or similar legislation or to secure public or statutory obligations; and (d) easements, rights of way and other encumbrances on title to real property that do not render title to the property encumbered thereby unmarketable or materially adversely affect the use of such property for its present purposes.

“Person” means an individual, partnership, corporation (including a business trust), joint stock company, trust, unincorporated association, joint venture, limited liability company or other entity, or a government or any political subdivision or agency thereof.

“Plan” means a Single Employer Plan or a Multiple Employer Plan.

“Prime Rate” means the rate of interest per annum publicly announced from time to time by JPMCB as its prime rate at its offices at 270 Park Avenue in New York City; each change in the Prime Rate shall be effective from and including the date such change is publicly announced as being effective.

“Pro Rata Share” of any amount means, with respect to any Lender at any time, (a) with respect to Revolving Credit Advances, Letter of Credit Advances or Swingline Advances, the product of such amount times a fraction the numerator of which is the amount of such Lender’s Revolving Credit Commitment at such time and the denominator of which is the Revolving Credit Facility at such time and (b) with respect to Term Loan Advances, the product of such amount times a fraction the numerator of which is the amount of such Lender’s outstanding Term Loan Advances and the denominator of which is the aggregate outstanding amount of the Term Loan Advances of all Lenders.

“Register” has the meaning specified in Section 8.07(f).

“Required Lenders” means, at any time, Lenders having Credit Exposure and unused Commitments representing more than 50% of the sum of the total Credit Exposure and unused Commitments at such time.

“Revolving Credit Advance” means an advance by a Lender to a Borrower as part of a Revolving Credit Borrowing and refers to a Base Rate Advance or a Eurodollar Rate Advance.

“Revolving Credit Borrowing” means a borrowing consisting of simultaneous Revolving Credit Advances of the same Type made by each of the Lenders pursuant to Section 2.01.

“Revolving Credit Commitment” means, with respect to any Lender at any time (a) the amount set forth opposite such Lender’s name on the Commitment Schedule under the caption “Revolving Credit Commitment” (b) if such Lender has become a Lender hereunder pursuant to an Assumption Agreement, the amount set forth in such Assumption Agreement or (c) if such Lender has entered into any Assignment and Acceptance, the amount set forth for such Lender in the Register maintained by the Agent pursuant to Section 8.07(f), as such amount may be reduced pursuant to Section 2.05 or increased pursuant to Section 2.18. On the date hereof, the aggregate Revolving Credit Commitments of the Lenders is \$325,000,000.

“Revolving Credit Commitment Increase” has the meaning specified in Section 2.18(a).

“Revolving Credit Exposure” means, with respect to any Lender at any time, the sum of the outstanding principal amount of such Lender’s Revolving Credit Advances and its Letter of Credit Advances and Swingline Exposure at such time, plus its Pro Rata Share of the aggregate Available Amount of each Letter of Credit.

“Revolving Credit Facility” means, at any time, the aggregate amount of the Lenders’ Revolving Credit Commitments at such time.

“Revolving Credit Note” means a promissory note of a Borrower payable to the order of any Lender requesting the same, in substantially the form of Exhibit A-1 hereto, evidencing the aggregate indebtedness of such Borrower to such Lender resulting from the Revolving Credit Advances made by such Lender.

“Robinson Family” means 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 beneficiaries (or in the case of a Person with more than one legal representative or beneficiary, at least half of whose legal representatives or beneficiaries) 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/or the will of Florence L. Robinson so long as at least half of their respective trustees or beneficiaries continue to consist of one or more of the foregoing individuals, spouses and/or descendants.

“Significant Subsidiary” shall mean any Subsidiary that owns 10% or more of the total consolidated assets of the Holding Company and its subsidiaries and contributes 10% or more of their total consolidated revenue from operations. Each direct and indirect parent (other than the Holding Company or the Operating Company) of a Significant Subsidiary also shall be deemed a Significant Subsidiary.

“Single Employer Plan” means a single employer plan, as defined in Section 4001(a)(15) of ERISA, that (a) is maintained for employees of a Borrower or any ERISA Affiliate and no Person other than the Borrowers and the ERISA Affiliates or (b) was so maintained and in respect of which a Borrower or any ERISA Affiliate could have liability under Section 4069 of ERISA in the event such plan has been or were to be terminated.

“Subsidiary” of any Person means any corporation, partnership, joint venture, limited liability company, trust or estate of which (or in which) more than 50% of (a) the issued and outstanding capital stock having ordinary voting power to elect a majority of the Board of Directors of such corporation (irrespective of whether at the time capital stock of any other class or classes of such corporation shall or might have voting power upon the occurrence of any contingency), (b) the interest in the capital or profits of such limited liability company, partnership or joint venture or (c) the beneficial interest in such trust or estate is at the time directly or indirectly owned or controlled by such Person, by such Person and one or more of its other Subsidiaries or by one or more of such Person’s other Subsidiaries.

“Swingline Advance” means an Advance made pursuant to Section 2.04.

“Swingline Exposure” means, at any time, the aggregate principal amount of all Swingline Advances outstanding at such time. The Swingline Exposure of any Lender at any time shall be its Pro Rata Share of the total Swingline Exposure at such time.

“Swingline Lender” means JPMorgan Chase Bank, National Association, in its capacity as lender of Swingline Advances hereunder.

“Term Loan Advance” means an advance by a Lender to a Borrower as part of the Term Loan Borrowing and refers to a Base Rate Advance or a Eurodollar Rate Advance.

“Term Loan Advance Period” means the period commencing on the Effective Date and ending at 3:00 p.m., New York time, on July 1, 2007.

“Term Loan Borrowing” means the borrowing consisting of simultaneous Term Loan Advances of the same Type made by each of the Lenders pursuant to Section 2.01.

“Term Loan Commitment” means (a) as to any Lender, the aggregate commitment of such Lender to make Term Loan Advances equal to the amount set forth opposite such Lender’s

name on the Commitment Schedule under the caption “Term Loan Commitment” and (b) as to all Lenders, the aggregate commitment of all Lenders to make Term Loan Advances, which aggregate commitment shall be up to \$200,000,000 on the date of this Agreement. After advancing the Term Loan Advances, each reference to a Lender’s Term Loan Commitment shall refer to that Lender’s Pro Rata Share of the outstanding Term Loan Advances.

“Term Loan Facility” means, at any time, the aggregate amount of the Lenders’ Term Loan Commitments at such time.

“Term Loan Note” means a promissory note of a Borrower payable to the order of any Lender requesting the same, in substantially the form of Exhibit A-3 hereto, evidencing the aggregate indebtedness of such Borrower to such Lender resulting from the Term Loan Advances made by such Lender.

“Termination Date” means the earlier of June 1, 2012 and the date of termination in whole of the Revolving Credit Commitments pursuant to Section 2.05 or 6.01.

“Total Consolidated Debt” shall mean the consolidated Debt of the Borrowers and their Subsidiaries.

“Type”, when used in reference to any Advance or Borrowing, refers to whether the rate of interest on such Advance, or the Advances comprising such Borrowing, is determined by reference to the Eurodollar Rate or the Base Rate.

“Unused Revolving Credit Commitment” means, with respect to any Lender at any time, (a) such Lender’s Revolving Credit Commitment at such time minus (b) the sum of (i) the aggregate principal amount of all Revolving Credit Advances, Letter of Credit Advances and Swingline Advances made by such Lender, in each case in its capacity as a Lender, and outstanding at such time, and (ii) such Lender’s Pro Rata Share of (A) the aggregate Available Amount of all Letters of Credit outstanding at such time, (B) the aggregate amount of the Competitive Bid Advances and Swingline Advances outstanding at such time, and (C) to the extent not included in clause (b)(i) of this definition, the aggregate principal amount of all Letter of Credit Advances made by the Issuing Banks pursuant to Section 2.16(d) and outstanding at such time.

“Voting Stock” means capital stock issued by a corporation, or equivalent interests in any other Person, the holders of which are ordinarily, in the absence of contingencies, entitled to vote for the election of a majority of the directors (or persons performing similar functions) of such Person, even if the right so to vote has been suspended by the happening of such a contingency.

SECTION 1.02 Computation of Time Periods. In this Agreement in the computation of periods of time from a specified date to a later specified date, the word “from” means “from and including” and the words “to” and “until” each mean “to but excluding”.

SECTION 1.03 Accounting Terms. All accounting terms not specifically defined herein shall be construed in accordance with generally accepted accounting principles (“GAAP”).

## ARTICLE II

### AMOUNTS AND TERMS OF THE ADVANCES

SECTION 2.01 Commitments. Subject to the terms and conditions hereinafter set forth, (a) each Lender severally agrees, on the terms and conditions hereinafter set forth, to make Revolving Credit Advances to any Borrower from time to time on any Business Day during the period from the Effective Date until the Termination Date in an amount for each such Advance not to exceed such Lender's Unused Revolving Credit Commitment at such time and (b) each Lender agrees to make a single Term Loan Advance to any one Borrower on any Business Day during the Term Loan Advance Period, in an amount equal to such Lender's Term Loan Commitment by making immediately available funds available to the Agent's Account, not later than the time specified by the Agent. Each Revolving Credit Borrowing (other than a Swingline Advance) shall be in an aggregate amount of \$1,000,000 or an integral multiple of \$500,000 in excess thereof in the case of Base Rate Advances, or shall be in an aggregate amount of \$5,000,000 or an integral multiple of \$1,000,000 in excess thereof in the case of Eurodollar Rate Advances, and shall consist of Revolving Credit Advances of the same Type made on the same day by the Lenders ratably according to their respective Commitments. Each Swingline Advance shall be in an amount that is an integral multiple of \$250,000 and not less than \$250,000. Within the limits of each Lender's Revolving Credit Commitment, the Borrowers may borrow Revolving Credit Borrowings under this Section 2.01, prepay Revolving Credit Borrowings pursuant to Section 2.10 and reborrow Revolving Credit Borrowings under this Section 2.01. Amounts repaid or prepaid in respect of the Term Loan Borrowing may not be reborrowed.

SECTION 2.02 Making the Revolving Credit Advances and the Term Loan Advances.

(a) Advances.

(i) Revolving Credit Advances. Each Revolving Credit Borrowing shall be made on notice, given not later than (x) 11:00 A.M. (New York City time) on the third Business Day prior to the date of the proposed Revolving Credit Borrowing in the case of a Revolving Credit Borrowing consisting of Eurodollar Rate Advances or (y) 11:00 A.M. (New York City time) on the date of the proposed Revolving Credit Borrowing in the case of a Revolving Credit Borrowing consisting of Base Rate Advances, by the applicable Borrower to the Agent, which shall give to each Lender prompt notice thereof by telecopier. Each such notice of a Revolving Credit Borrowing (a "Notice of Revolving Credit Borrowing") shall be by telephone, confirmed immediately in writing, or telecopier in substantially the form of Exhibit B-1 hereto, specifying therein the requested (i) date of such Revolving Credit Borrowing, (ii) Type of Advances comprising such Revolving Credit Borrowing, (iii) aggregate amount of such Revolving Credit Borrowing, and (iv) in the case of a Revolving Credit Borrowing consisting of Eurodollar Rate Advances, initial Interest Period for each such Revolving Credit Advance. Each Lender shall, before 2:00 P.M. (New York City time) on the date of such Revolving Credit Borrowing make available for the account of its Applicable Lending Office to the Agent at the Agent's Account, in same day funds, such Lender's ratable portion of such Revolving Credit Borrowing. After the Agent's receipt of such funds and upon fulfillment of the applicable conditions set forth in Article III, the Agent will make such funds available to the applicable Borrower at the Agent's address referred to in Section 8.02; provided, however, that, in the case of any such Borrowing, the Agent shall first make a portion of such funds equal to the aggregate principal amount of any Letter of Credit Advances made by any Issuing Bank and by any other Lender and outstanding on the date of such Revolving Credit Borrowing, plus interest accrued and unpaid thereon to and as of such date, available to such Issuing Bank and such other Lenders for repayment of such Letter of Credit Advances.

(ii) Term Loan Advances. If not made on the Effective Date, the Term Loan Advances shall be made during the Term Loan Advance Period on notice, given not later than 11:00 A.M. (New York City time) on the third Business Day prior to the date of the Term Loan

Advances, by the applicable Borrower to the Agent, which shall give to each Lender prompt notice thereof by telecopier. Such notice to the Agent of the Term Loan Borrowing (a “Notice of Term Loan Borrowing”) shall be by telephone, confirmed immediately in writing, or telecopier in substantially the form of Exhibit B-3 hereto, specifying therein the requested (i) date of Term Loan Advance, (ii) Type of Advances comprising such Term Loan Borrowing, (iii) in the event the Term Loan Borrowing shall consist of Eurodollar Rate Advances, initial Interest Period for such Eurodollar Rate Advance. Each Lender shall, before 2:00 P.M. (New York City time) on the date of the Term Loan Borrowing make available for the account of its Applicable Lending Office to the Agent at the Agent’s Account, in same day funds, such Lender’s ratable portion of the Term Loan Borrowing. After the Agent’s receipt of such funds and upon fulfillment of the applicable conditions set forth in Article III, the Agent will make such funds available to the applicable Borrower at the Agent’s address referred to in Section 8.02.

(b) Anything in subsection (a) above to the contrary notwithstanding, (i) the Borrowers may not select Eurodollar Rate Advances for any Revolving Credit Borrowing or the Term Loan Borrowing if the aggregate amount of such Revolving Credit Borrowing or Term Loan Borrowing, as applicable, is less than \$5,000,000 or if the obligation of the Lenders and/or the Lenders, as applicable, to make Eurodollar Rate Advances shall then be suspended pursuant to Section 2.08 or 2.12 and (ii) no more than twelve separate Eurodollar Rate Advances may be outstanding at any time.

(c) Each Notice of Revolving Credit Borrowing and each Notice of Term Loan Borrowing shall be irrevocable and binding on the applicable Borrower. In the case of any Revolving Credit Borrowing or the Term Loan Borrowing that the related Notice of Revolving Credit Borrowing or Notice of Term Loan Borrowing, as applicable, specifies is to be comprised of Eurodollar Rate Advances, the applicable Borrower shall indemnify each Lender against any loss, cost or expense incurred by such Lender as a result of any failure to fulfill on or before the date specified in such Notice of Revolving Credit Borrowing for such Revolving Credit Borrowing or such Notice of Term Loan Borrowing for such Term Loan Borrowing, as applicable, the applicable conditions set forth in Article III, including, without limitation, any loss (including loss of anticipated profits), cost or expense incurred by reason of the liquidation or reemployment of deposits or other funds acquired by such Lender to fund the Revolving Credit Advance or Term Loan Advance, as applicable, to be made by such Lender as part of such Revolving Credit Borrowing or Term Loan Borrowing, as applicable, when such Revolving Credit Advance or Term Loan Advance, as applicable, as a result of such failure, is not made on such date.

(d) Unless the Agent shall have received notice from a Lender prior to the date of any Revolving Credit Borrowing or the Term Loan Borrowing that such Lender will not make available to the Agent such Lender’s ratable portion of such Revolving Credit Borrowing or Term Loan Borrowing, as applicable, the Agent may assume that such Lender has made such portion available to the Agent on the date of such Revolving Credit Borrowing or Term Loan Borrowing, as applicable, in accordance with subsection (a) of this Section 2.02 and the Agent may, in reliance upon such assumption, make available to the applicable Borrower on such date a corresponding amount. If and to the extent that such Lender shall not have so made such ratable portion available to the Agent, such Lender and the applicable Borrower severally agree to repay to the Agent forthwith on demand such corresponding amount together with interest thereon, for each day from the date such amount is made available to such Borrower until the date such amount is repaid to the Agent, at (i) in the case of such Borrower, the interest rate applicable at the time to Revolving Credit Advances comprising such Revolving Credit Borrowing or to Term Loan Advances comprising such Term Loan Borrowing, as applicable, and (ii) in the case of such Lender, the Federal Funds Rate. If such Lender shall repay to the Agent such corresponding amount, such amount so repaid shall constitute such Lender’s Revolving Credit Advance as part of such Revolving Credit Borrowing or Term Loan Advance as part of such Term Loan Borrowing, as applicable, for purposes of this Agreement.

(e) The failure of any Lender to make the Revolving Credit Advance to be made by it as part of any Revolving Credit Borrowing or the Term Loan Advance to be made by it as part of the Term Loan Borrowing, as applicable, shall not relieve any other Lender of its obligation, if any, hereunder to make its Revolving Credit Advance on the date of such Revolving Credit Borrowing or its Term Loan Advance on the date of such Term Loan Borrowing, as applicable, but no Lender shall be responsible for the failure of any other Lender to make the Revolving Credit Advance to be made by such other Lender on the date of any Revolving Credit Borrowing or the Term Loan Advance to be made by such other Lender on the day of the Term Loan Borrowing, as applicable.

(f) Notwithstanding the foregoing, Swingline Advances shall be made as provided in Section 2.04.

SECTION 2.03 The Competitive Bid Advances. (a) Each Lender severally agrees that either Borrower may make Competitive Bid Borrowings under this Section 2.03 from time to time on any Business Day during the period from the date hereof until the date occurring 30 days prior to the Termination Date in the manner set forth below; provided that such Competitive Bid Borrowing shall not exceed the aggregate Unused Revolving Credit Commitments of the Lenders in effect immediately prior to giving effect to such Competitive Bid Borrowing and the aggregate principal amount of all Competitive Bid Borrowings shall not exceed \$100,000,000.

(i) Either Borrower may request a Competitive Bid Borrowing under this Section 2.03 by delivering to the Agent, by telecopier, a notice of a Competitive Bid Borrowing (a "Notice of Competitive Bid Borrowing"), in substantially the form of Exhibit B-2 hereto, specifying therein the requested (v) date of such proposed Competitive Bid Borrowing, (w) aggregate amount of such proposed Competitive Bid Borrowing, (x) in the case of a Competitive Bid Borrowing consisting of LIBO Rate Advances, Interest Period, or in the case of a Competitive Bid Borrowing consisting of Fixed Rate Advances, maturity date for repayment of each Fixed Rate Advance to be made as part of such Competitive Bid Borrowing (which maturity date may not be earlier than the date occurring 7 days after the date of such Competitive Bid Borrowing or later than Termination Date), (y) interest payment date or dates relating thereto, and (z) other terms (if any) to be applicable to such Competitive Bid Borrowing, not later than 10:00 A.M. (New York City time) (A) at least one Business Day prior to the date of the proposed Competitive Bid Borrowing, if such Borrower shall specify in the Notice of Competitive Bid Borrowing that the rates of interest to be offered by the Lenders shall be fixed rates per annum (the Advances comprising any such Competitive Bid Borrowing being referred to herein as "Fixed Rate Advances") and (B) at least four Business Days prior to the date of the proposed Competitive Bid Borrowing, if such Borrower shall instead specify in the Notice of Competitive Bid Borrowing that the Advances comprising such Competitive Bid Borrowing shall be LIBO Rate Advances. Each Notice of Competitive Bid Borrowing shall be irrevocable and binding on such Borrower. The Agent shall in turn promptly notify each Lender of each request for a Competitive Bid Borrowing received by it from such Borrower by sending such Lender a copy of the related Notice of Competitive Bid Borrowing.

(ii) Each Lender may, if, in its sole discretion, it elects to do so, irrevocably offer to make one or more Competitive Bid Advances to such Borrower as part of such proposed Competitive Bid Borrowing at a rate or rates of interest specified by such Lender in its sole discretion, by notifying the Agent (which shall give prompt notice thereof to such Borrower), (A) before 9:30 A.M. (New York City time) on the date of such proposed Competitive Bid Borrowing, in the case of a Competitive Bid Borrowing consisting of Fixed Rate Advances and (B) before 10:00 A.M. (New York City time) three Business Days before the date of such proposed Competitive Bid Borrowing, in the case of a Competitive Bid Borrowing consisting of

LIBO Rate Advances of the minimum amount and maximum amount of each Competitive Bid Advance which such Lender would be willing to make as part of such proposed Competitive Bid Borrowing (which amounts of such proposed Competitive Bid may, subject to the proviso to the first sentence of this Section 2.03(a), exceed such Lender's Commitment, if any), the rate or rates of interest therefor and such Lender's Applicable Lending Office with respect to such Competitive Bid Advance; provided that if the Agent in its capacity as a Lender shall, in its sole discretion, elect to make any such offer, it shall notify such Borrower of such offer at least 30 minutes before the time and on the date on which notice of such election is to be given to the Agent, by the other Lenders. If any Lender shall elect not to make such an offer, such Lender shall so notify the Agent before 10:00 A.M. (New York City time), and such Lender shall not be obligated to, and shall not, make any Competitive Bid Advance as part of such Competitive Bid Borrowing; provided that the failure by any Lender to give such notice shall not cause such Lender to be obligated to make any Competitive Bid Advance as part of such proposed Competitive Bid Borrowing.

(iii) Such Borrower shall, in turn, (A) before 10:30 A.M. (New York City time) on the date of such proposed Competitive Bid Borrowing, in the case of a Competitive Bid Borrowing consisting of Fixed Rate Advances and (B) before 11:00 A.M. (New York City time) three Business Days before the date of such proposed Competitive Bid Borrowing, in the case of a Competitive Bid Borrowing consisting of LIBO Rate Advances, either:

(x) cancel such Competitive Bid Borrowing by giving the Agent notice to that effect, or

(y) accept one or more of the offers made by any Lender or Lenders pursuant to paragraph (ii) above, in its sole discretion, by giving notice to the Agent of the amount of each Competitive Bid Advance (which amount shall be equal to or greater than the minimum amount, and equal to or less than the maximum amount, notified to such Borrower by the Agent on behalf of such Lender for such Competitive Bid Advance pursuant to paragraph (ii) above) to be made by each Lender as part of such Competitive Bid Borrowing, and reject any remaining offers made by Lenders pursuant to paragraph (ii) above by giving the Agent notice to that effect. Such Borrower shall accept the offers made by any Lender or Lenders to make Competitive Bid Advances in order of the lowest to the highest rates of interest offered by such Lenders. If two or more Lenders have offered the same interest rate, the amount to be borrowed at such interest rate will be allocated among such Lenders in proportion to the amount that each such Lender offered at such interest rate.

(iv) If such Borrower notifies the Agent that such Competitive Bid Borrowing is cancelled pursuant to paragraph (iii)(x) above, the Agent shall give prompt notice thereof to the Lenders and such Competitive Bid Borrowing shall not be made.

(v) If such Borrower accepts one or more of the offers made by any Lender or Lenders pursuant to paragraph (iii)(y) above, the Agent shall in turn promptly notify (A) each Lender that has made an offer as described in paragraph (ii) above, of the date and aggregate amount of such Competitive Bid Borrowing and whether or not any offer or offers made by such Lender pursuant to paragraph (ii) above have been accepted by such Borrower, (B) each Lender that is to make a Competitive Bid Advance as part of such Competitive Bid Borrowing, of the amount of each Competitive Bid Advance to be made by such Lender as part of such Competitive Bid Borrowing, and (C) each Lender that is to make a Competitive Bid Advance as part of such Competitive Bid Borrowing, upon receipt, that the Agent has received forms of documents

appearing to fulfill the applicable conditions set forth in Article III. Each Lender that is to make a Competitive Bid Advance as part of such Competitive Bid Borrowing shall, before 11:00 A.M. (New York City time) on the date of such Competitive Bid Borrowing specified in the notice received from the Agent pursuant to clause (A) of the preceding sentence or any later time when such Lender shall have received notice from the Agent pursuant to clause (C) of the preceding sentence, make available for the account of its Applicable Lending Office to the Agent at its address referred to in Section 8.02, in same day funds, such Lender's portion of such Competitive Bid Borrowing. Upon fulfillment of the applicable conditions set forth in Article III and after receipt by the Agent of such funds, the Agent will make such funds available to such Borrower at the location specified by such Borrower in its Notice of Competitive Bid Borrowing. Promptly after each Competitive Bid Borrowing the Agent will notify each Lender of the amount of the Competitive Bid Borrowing and the dates upon which such Competitive Bid Borrowing commenced and will terminate.

(vi) If such Borrower notifies the Agent that it accepts one or more of the offers made by any Lender or Lenders pursuant to paragraph (iii)(y) above, such notice of acceptance shall be irrevocable and binding on such Borrower. Such Borrower shall indemnify each Lender against any loss, cost or expense incurred by such Lender as a result of any failure to fulfill on or before the date specified in the related Notice of Competitive Bid Borrowing for such Competitive Bid Borrowing the applicable conditions set forth in Article III, including, without limitation, any loss (including loss of anticipated profits), cost or expense incurred by reason of the liquidation or reemployment of deposits or other funds acquired by such Lender to fund the Competitive Bid Advance to be made by such Lender as part of such Competitive Bid Borrowing when such Competitive Bid Advance, as a result of such failure, is not made on such date.

(b) Each Competitive Bid Borrowing shall be in an aggregate amount of \$5,000,000 or an integral multiple of \$1,000,000 in excess thereof and, following the making of each Competitive Bid Borrowing, the Borrower making such Competitive Bid Borrowing shall be in compliance with the limitation set forth in the proviso to the first sentence of subsection (a) above.

(c) Within the limits and on the conditions set forth in this Section 2.03, any Borrower may from time to time borrow under this Section 2.03, repay or prepay pursuant to subsection (d) below, and reborrow under this Section 2.03, provided that a Competitive Bid Borrowing shall not be made on more than one day within any period of three Business Days.

(d) Any Borrower making a Competitive Bid Borrowing shall repay to the Agent for the account of each Lender that has made a Competitive Bid Advance, on the earlier of the Termination Date or the maturity date of each Competitive Bid Advance (such maturity date being that specified by such Borrower for repayment of such Competitive Bid Advance in the related Notice of Competitive Bid Borrowing delivered pursuant to subsection (a)(i) above and, if applicable, provided in the Competitive Bid Note evidencing such Competitive Bid Advance), the then unpaid principal amount of such Competitive Bid Advance. No Borrower shall have any right to prepay any principal amount of any Competitive Bid Advance unless, and then only on the terms, specified by such Borrower for such Competitive Bid Advance in the related Notice of Competitive Bid Borrowing delivered pursuant to subsection (a)(i) above and, if applicable, set forth in the Competitive Bid Note evidencing such Competitive Bid Advance.

(e) Each Borrower making a Competitive Bid Borrowing shall pay interest on the unpaid principal amount of each Competitive Bid Advance from the date of such Competitive Bid Advance to the date the principal amount of such Competitive Bid Advance is repaid in full, at the rate of interest for such Competitive Bid Advance specified by the Lender making such Competitive Bid

Advance in its notice with respect thereto delivered pursuant to subsection (a)(ii) above, payable on the interest payment date or dates specified by such Borrower for such Competitive Bid Advance in the related Notice of Competitive Bid Borrowing delivered pursuant to subsection (a)(i) above, and, if applicable, as provided in the Competitive Bid Note evidencing such Competitive Bid Advance. Upon the occurrence and during the continuance of an Event of Default, such Borrower shall pay interest on the amount of unpaid principal of each Competitive Bid Advance owing to a Lender, payable in arrears on the date or dates interest is payable thereon, at a rate per annum equal at all times to 2% per annum above the rate per annum required to be paid on such Competitive Bid Advance under the terms of such Competitive Bid Advance unless otherwise agreed in any applicable Competitive Bid Note.

(f) The indebtedness of any Borrower resulting from each Competitive Bid Advance made to such Borrower as part of a Competitive Bid Borrowing shall, to the extent requested by any Lender making such Competitive Bid Advance, be evidenced by a separate Competitive Bid Note of such Borrower payable to the order of such Lender.

#### SECTION 2.04 Swingline Advances.

(a) Subject to the terms and conditions set forth herein, the Swingline Lender agrees to make Swingline Advances to the Borrowers from time to time during the period from the Effective Date until the Termination Date, in an aggregate principal amount at any time outstanding that will not result in (i) the aggregate principal amount of outstanding Swingline Advances exceeding \$15,000,000 or (ii) the sum of the total Revolving Credit Exposures plus the aggregate principal amount of outstanding Competitive Loans exceeding the total Revolving Credit Commitments; provided that the Swingline Lender shall not be required to make a Swingline Advance to refinance an outstanding Swingline Advance. Within the foregoing limits and subject to the terms and conditions set forth herein, the Borrowers may borrow, prepay and reborrow Swingline Advances.

(b) To request a Swingline Advance, the applicable Borrower shall notify the Agent of such request by telephone (confirmed by telecopy), not later than 12:00 noon, New York City time, on the day of a proposed Swingline Advance. Each such notice shall be irrevocable and shall specify the requested date (which shall be a Business Day) and amount of the requested Swingline Advance. The Agent will promptly advise the Swingline Lender of any such notice received from the applicable Borrower. The Swingline Lender shall make each Swingline Advance available to the applicable Borrower by means of a credit to the general deposit account of such Borrower with the Swingline Lender.

(c) The Swingline Lender may by written notice given to the Agent not later than 10:00 a.m., New York City time, on any Business Day require the Lenders to acquire participations on such Business Day in all or a portion of the Swingline Advances outstanding. Such notice shall specify the aggregate amount of Swingline Advances in which Lenders will participate. Promptly upon receipt of such notice, the Agent will give notice thereof to each Lender, specifying in such notice such Lender's Pro Rata Share of such Swingline Advance or Advances. Each Lender hereby absolutely and unconditionally agrees, upon receipt of notice as provided above, to pay to the Agent, for the account of the Swingline Lender, such Lender's Pro Rata Share of such Swingline Advance or Advances. Each Lender acknowledges and agrees that its obligation to acquire participations in Swingline Advances pursuant to this paragraph is absolute and unconditional and shall not be affected by any circumstance whatsoever, including the occurrence and continuance of an Event of Default or reduction or termination of the Revolving Credit Commitments, and that each such payment shall be made without any offset, abatement, withholding or reduction whatsoever. Each Lender shall comply with its obligation under this paragraph by wire transfer of immediately available funds, in the same manner as provided in Section 2.02 with respect to Loans made by such Lender (and Section 2.02 shall apply, mutatis mutandis, to the

payment obligations of the Lenders), and the Agent shall promptly pay to the Swingline Lender the amounts so received by it from the Lenders. The Agent shall notify the Borrowers of any participations in any Swingline Advance acquired pursuant to this paragraph, and thereafter payments in respect of such Swingline Advance shall be made to the Agent and not to the Swingline Lender. Any amounts received by the Swingline Lender from any Borrower (or other party on behalf of the Borrowers) in respect of a Swingline Advance after receipt by the Swingline Lender of the proceeds of a sale of participations therein shall be promptly remitted to the Agent; any such amounts received by the Agent shall be promptly remitted by the Agent to the Lenders that shall have made their payments pursuant to this paragraph and to the Swingline Lender, as their interests may appear; provided that any such payment so remitted shall be repaid to the Swingline Lender or to the Agent, as applicable, if and to the extent such payment is required to be refunded to the applicable Borrower for any reason. The purchase of participations in a Swingline Advance pursuant to this paragraph shall not relieve any Borrower of any default in the payment thereof.

SECTION 2.05 Termination or Reduction of the Commitments. Unless previously terminated, (i) the Term Loan Commitments shall terminate at 5:00 p.m., New York time, at the end of the Term Loan Advance Period (it being understood and agreed that any portion of the Term Loan Commitment not used on the date of the funding of the Term Loan Advances will be permanently reduced and cancelled) and (ii) all other Commitments shall terminate on the Termination Date. The Borrowers shall have the right, upon at least five Business Days' notice to the Agent, to terminate in whole or reduce ratably in part the unused portions of the Letter of Credit Facility and the Unused Revolving Credit Commitments, provided that each partial reduction shall be in the aggregate amount of \$5,000,000 or an integral multiple of \$1,000,000 in excess thereof. The Letter of Credit Facility shall be permanently reduced from time to time on the date of each reduction in the Revolving Credit Facility by the amount, if any, by which the Letter of Credit Facility exceeds the Revolving Credit Facility after giving effect to such reduction of the Revolving Credit Facility.

SECTION 2.06 Repayment of Revolving Credit Advances, Term Loan Advances, Swingline Advances and Letter of Credit Advances; Evidence of Debt. (a) Revolving Credit Advances. The Borrowers shall repay to the Agent for the ratable account of the Lenders on the Termination Date the aggregate principal amount of the Revolving Credit Advances then outstanding.

(b) Term Loan Advances. The applicable Borrower shall repay the Term Loan Advances on the last day of each calendar quarter (commencing with the calendar quarter ending on December 31, 2007) in an aggregate principal amount equal to \$10,700,000 (assuming that the entire \$200,000,000 of the Term Loan Commitment is funded or a proportionately lesser amount if a lesser amount of the Term Loan Commitment is funded) on each such day. To the extent not previously repaid, all unpaid Term Loan Advances shall be paid in full in dollars by such Borrower on the Termination Date.

(c) Letter of Credit Advances. The Borrowers shall repay to the Agent for the account of each Issuing Bank and each other Lender that has made a Letter of Credit Advance the outstanding principal amount of each Letter of Credit Advance made by each of them on the earlier of the Termination Date or on demand.

(d) Swingline Advances. The Borrowers shall repay the then unpaid principal amount of each Swingline Advance (and accrued interest thereon) on the earlier of (i) the Termination Date and (ii) the first date after such Swingline Advance is made that is the 15<sup>th</sup> or last day of a calendar month and is at least two Business Days after such Swingline Advance is made; provided that on each date that a Revolving Credit Borrowing or Competitive Bid Borrowing is made, the Borrowers shall repay all Swingline Advances then outstanding.

(e) Each Lender shall maintain in accordance with its usual practice an account or accounts evidencing the indebtedness of the Borrowers to such Lender resulting from each Advance made by such Lender, including the amounts of principal and interest payable and paid to such Lender from time to time hereunder. The Agent shall maintain accounts in which it shall record (i) the amount of each Advance made hereunder, the Class and Type thereof and the Interest Period applicable thereto, (ii) the amount of any principal or interest due and payable or to become due and payable from each Borrower to each Lender hereunder and (iii) the amount of any sum received by the Agent hereunder for the account of the Lenders and each Lender's share thereof. The entries made in the accounts maintained pursuant to this paragraph (c) shall be prima facie evidence of the existence and amounts of the obligations recorded therein; provided that the failure of any Lender or the Agent to maintain such accounts or any error therein shall not in any manner affect the obligation of any Borrower to repay the Advances in accordance with the terms of this Agreement.

(f) Any Lender may request that Advances made by it be evidenced by the applicable Notes. In such event, the Borrowers shall prepare, execute and deliver to such Lender the applicable Notes payable to the order of such Lender (or, if requested by such Lender, to such Lender and its registered assigns). Thereafter, the Advances evidenced by such Notes and interest thereon shall at all times (including after assignment pursuant to Section 8.07) be represented by such Notes payable to the order of the payee named therein (or, if such promissory note is a registered note, to such payee and its registered assigns).

SECTION 2.07 Interest on Revolving Credit Advances, Term Loan Advances, Swingline Advances and Letter of Credit Advances. (a) Scheduled Interest. The Borrowers shall pay interest on the unpaid principal amount of each Revolving Credit Advance, each Term Loan Advance, each Swingline Advance and each Letter of Credit Advance owing to each Lender from the date of such Advance until such principal amount shall be paid in full, at the following rates per annum:

(i) Base Rate Advances. During such periods as such Advance is a Base Rate Advance, a rate per annum equal at all times to the sum of (x) the Base Rate in effect from time to time plus (y) the Applicable Rate in effect from time to time, payable in arrears quarterly on the last day of each February, May, August and November during such periods and on the date all Base Rate Advances shall be Converted or paid in full.

(ii) Eurodollar Rate Advances. During such periods as such Advance is a Eurodollar Rate Advance, a rate per annum equal at all times during each Interest Period for such Advance to the sum of (x) the Eurodollar Rate for such Interest Period for such Advance plus (y) the Applicable Rate in effect from time to time payable in arrears on the last day of such Interest Period and, if such Interest Period has a duration of more than three months, on each day that occurs during such Interest Period every three months from the first day of such Interest Period and on the date such Eurodollar Rate Advance shall be Converted or paid in full.

(iii) Swingline Advances. With respect to a Swingline Advance, a rate per annum equal at all times to either (x) the Base Rate in effect from time to time or (y) the Money Market Rate in effect from time to time, payable in accordance with the terms of Section 2.06(d). Each Swingline Advance shall be a Base Rate Advance unless, prior to requesting a Swingline Loan, the applicable Borrower shall have requested that such Swingline Advance bear interest at the Money Market Rate and the Swingline Lender shall have quoted a Money Market Rate therefor which such Borrower shall select in its notice delivered pursuant to Section 2.04(b); provided that the Swingline Lender shall only be required to provide interest rate quotes for a Money Market Rate to the extent of availability of Money Market Rates by the Swingline Lender.

(b) Default Interest. Upon the occurrence and during the continuance of an Event of Default, the Agent may, and upon the request of the Required Lenders shall, give notice to the Borrowers to pay, and the Borrower shall pay, interest (“Default Interest”) on the unpaid principal amount of each Advance owing to each Lender, payable in arrears on the dates referred to in clause (a)(i) or (a)(ii) above, at a rate per annum equal at all times to 2% per annum above the rate per annum required to be paid on such Advance pursuant to clause (a)(i) or (a)(ii) above; provided, however, that following acceleration of the Advances pursuant to Section 6.01, Default Interest shall accrue and be payable whether or not previously required by the Agent.

SECTION 2.08 Interest Rate Determination. (a) The Agent shall give prompt notice to the Borrowers and the Lenders of the applicable interest rate determined by the Agent for purposes of Section 2.07(a)(i) or (ii).

(b) If, with respect to any Eurodollar Rate Advances, the Required Lenders reasonably determine and notify the Agent that the Eurodollar Rate for any Interest Period for such Advances will not adequately reflect the cost to such Required Lenders of making, funding or maintaining their respective Eurodollar Rate Advances for such Interest Period, the Agent shall forthwith so notify the Borrowers and the Lenders, whereupon (i) each Eurodollar Rate Advance will (unless repaid, or otherwise Converted by the Borrowers) automatically, on the last day of the then existing Interest Period therefor, Convert into a Base Rate Advance, and (ii) the obligation of the Lenders to make, or to Convert Revolving Credit Advances into, Eurodollar Rate Advances shall be suspended until the Agent shall notify the Borrowers and the Lenders that the circumstances causing such suspension no longer exist. Each Lender that provides a notice as described in this Section 2.08(b) agrees to provide to the Borrowers a certificate in reasonable detail summarizing the basis for such notice.

(c) If the Borrowers shall fail to select the duration of any Interest Period for any Eurodollar Rate Advances in accordance with the provisions contained in the definition of “Interest Period” in Section 1.01, the Agent will forthwith so notify the Borrowers and the Lenders and such Advances will automatically, on the last day of the then existing Interest Period therefor, be Converted into Base Rate Advances.

(d) On the date on which the aggregate unpaid principal amount of Eurodollar Rate Advances comprising any Borrowing shall be reduced, by payment or prepayment or otherwise, to less than \$5,000,000, such Advances shall automatically Convert into Base Rate Advances.

(e) Upon the occurrence and during the continuance of any Event of Default, (i) each Eurodollar Rate Advance will automatically, on the last day of the then existing Interest Period therefor, Convert into a Base Rate Advance and (ii) the obligation of the Lenders to make, or to Convert Advances into, Eurodollar Rate Advances shall be suspended.

(f) If Reuters BBA LIBOR Rates Page 3750 is unavailable and JPMCB is unable to furnish timely information to the Agent for determining the Eurodollar Rate or LIBO Rate for any Eurodollar Rate Advances or LIBO Rate Advances, as the case may be,

(i) the Agent shall forthwith notify the Borrowers and the Lenders that the interest rate cannot be determined for such Eurodollar Rate Advances or LIBO Rate Advances, as the case may be,

(ii) with respect to Eurodollar Rate Advances, each such Advance will, on the last day of the then existing Interest Period therefor, be prepaid by the Borrowers or be automatically

Converted into a Base Rate Advance (or if such Advance is then a Base Rate Advance, will continue as a Base Rate Advance) at the Borrowers' election, and

(iii) the obligation of the Lenders to make Eurodollar Rate Advances or LIBO Rate Advances or to Convert Revolving Credit Advances into Eurodollar Rate Advances shall be suspended until the Agent shall notify the Borrowers and the Lenders that the circumstances causing such suspension no longer exist.

**SECTION 2.09 Optional Conversion of Revolving Credit Advances and Term Loan Advances.** Each Borrower may on any Business Day, upon notice given to the Agent not later than 11:00 A.M. (New York City time) on the third Business Day prior to the date of the proposed Conversion and subject to the provisions of Sections 2.08 and 2.12, Convert Revolving Credit Advances or Term Loan Advances of one Type comprising the same Borrowing made to such Borrower into Revolving Credit Advances or Term Loan Advances, as applicable, of the other Type; provided, however, that any Conversion of Eurodollar Rate Advances into Base Rate Advances shall be made only on the last day of an Interest Period for such Eurodollar Rate Advances, any Conversion of Base Rate Advances into Eurodollar Rate Advances shall be in an amount not less than the minimum amount specified in Section 2.02(b) and no Conversion of any Revolving Credit Advances or Term Loan Advances shall result in more separate Revolving Credit Borrowings and Term Loan Borrowing than permitted under Section 2.02(b). Each such notice of a Conversion shall, within the restrictions specified above, specify (i) the date of such Conversion, (ii) the Revolving Credit Advances or Term Loan Advances, as applicable, to be Converted, and (iii) if such Conversion is into Eurodollar Rate Advances, the duration of the initial Interest Period for each such Advance. Each notice of Conversion shall be irrevocable and binding on the applicable Borrower. This Section shall not apply to Competitive Bid Borrowings or Swingline Advances, which may not be converted or continued.

**SECTION 2.10 Prepayments of Revolving Credit Advances and Term Loan Advances.** (a) Optional. Each Borrower may, upon notice at least one Business Day prior to the date of such prepayment to the Agent (and, in the case of prepayment of a Swingline Advance, the Swingline Lender) stating the proposed date and aggregate principal amount of the prepayment, and if such notice is given such Borrower shall, prepay the outstanding principal amount of the Revolving Credit Advances comprising part of the same Revolving Credit Borrowing or the Term Loan Advances comprising part of the Term Loan Borrowing, as applicable, made to such Borrower in whole or ratably in part, together with accrued interest to the date of such prepayment on the principal amount prepaid; provided, however, that (x) each partial prepayment shall be in an aggregate principal amount of \$1,000,000 or an integral multiple of \$500,000 in excess thereof in the case of Base Rate Advances and in an aggregate principal amount of \$5,000,000 or an integral multiple of \$1,000,000 in excess thereof in the case of Eurodollar Rate Advances and (y) in the event of any such prepayment of a Eurodollar Rate Advance, such Borrower shall be obligated to reimburse the Lenders in respect thereof pursuant to Section 8.04(c).

(b) Mandatory. (i) (A) The Borrowers shall, on each Business Day, prepay an aggregate principal amount of the Revolving Credit Advances comprising part of the same Borrowings or the Letter of Credit Advances equal to the amount by which (1) the sum of the aggregate principal amount of (x) the Revolving Credit Advances, (y) the Letter of Credit Advances and (z) the Competitive Bid Advances then outstanding plus the aggregate Available Amount of all Letters of Credit then outstanding exceeds (2) the Revolving Credit Facility on such Business Day. Such prepayments of the Revolving Credit Facility shall be first applied to prepay Letter of Credit Advances then outstanding until such Advances are paid in full, and second applied to prepay Revolving Credit Advances then outstanding comprising part of the same Borrowings until such Advances are paid in full.

(B) The Borrowers shall, on each Business Day and on the Termination Date, pay to the Agent for deposit in the Letter of Credit Collateral Account an amount sufficient to cause the aggregate amount on deposit in such account to equal the amount by which the aggregate Available Amount of all Letters of Credit then outstanding exceeds the Letter of Credit Facility on such Business Day or the Termination Date, as the case may be.

(ii) All prepayments under this subsection (b) shall be made together with accrued interest to the date of such prepayment on the principal amount prepaid.

SECTION 2.11 Increased Costs. (a) If, due to either (i) the introduction of or any change in or in the interpretation of any law or regulation after the date hereof or (ii) the compliance with any guideline or request from any central bank or other governmental authority made after the date hereof (whether or not having the force of law), there shall be any increase in the cost to any Lender of agreeing to make or making, funding or maintaining Eurodollar Rate Advances or LIBO Rate Advances or of agreeing to issue or of issuing or maintaining or participating in Letters of Credit (excluding for purposes of this Section 2.11 any such increased costs resulting from (i) Taxes or Other Taxes (as to which Section 2.14 shall govern) and (ii) changes in the basis of taxation of overall net income or overall gross income by the United States or by the foreign jurisdiction or state under the laws of which such Lender is organized or has its Applicable Lending Office or any political subdivision thereof), then the Borrowers shall from time to time, upon demand by such Lender (with a copy of such demand to the Agent), pay to the Agent for the account of such Lender additional amounts sufficient to compensate such Lender for such increased cost; provided, however, that before making any such demand, each Lender agrees to use reasonable efforts (consistent with its internal policy and legal and regulatory restrictions) to designate a different Applicable Lending Office if the making of such a designation would avoid the need for, or reduce the amount of, such increased cost and would not, in the reasonable judgment of such Lender, be otherwise disadvantageous to such Lender. A certificate in reasonable detail summarizing the basis for and calculating the amount of such increased cost, submitted to the Borrowers and the Agent by such Lender shall be prima facie evidence of the amount claimed so long as any underlying determinations and allocations are made on a reasonable basis; provided, however, that no Lender shall be required to disclose in any such certificate any confidential proprietary information.

(b) If any Lender determines that compliance with any law or regulation or any guideline or request from any central bank or other governmental authority (whether or not having the force of law) affects or would affect the amount of capital required or expected to be maintained by such Lender or any corporation controlling such Lender and that the amount of such capital is increased by or based upon the existence of such Lender's commitment to lend or to issue or participate in Letters of Credit hereunder and other commitments of this type or the issuance or maintenance of the Letters of Credit, then, upon demand by such Lender (with a copy of such demand to the Agent), the Borrowers shall pay to the Agent for the account of such Lender, from time to time as specified by such Lender, additional amounts sufficient to compensate such Lender or such corporation in the light of such circumstances, to the extent that such Lender reasonably determines such increase in capital to be allocable to the existence of such Lender's commitment to lend or to issue or participate in Letters of Credit hereunder or the issuance or maintenance of the Letters of Credit (or other similar contingent obligations). A certificate in reasonable detail summarizing the basis for and calculating such amounts submitted to the Borrowers and the Agent by such Lender shall be prima facie evidence of the amount claimed so long as any underlying determinations and allocations are made on a reasonable basis; provided, however, that no Lender shall be required to disclose in any such certificate any confidential proprietary information.

SECTION 2.12 Illegality. Notwithstanding any other provision of this Agreement, if any Lender shall notify the Agent that the introduction of or any change in or in the interpretation of any

law or regulation makes it unlawful, or any central bank or other governmental authority asserts that it is unlawful, for any Lender or its Eurodollar Lending Office to perform its obligations hereunder to make Eurodollar Rate Advances or to fund or maintain Eurodollar Rate Advances hereunder, (a) each Eurodollar Rate Advance will automatically, upon such demand, Convert into a Base Rate Advance and (b) the obligation of the Lenders to make Eurodollar Rate Advances or LIBO Rate Advances or to Convert Revolving Credit Advances into Eurodollar Rate Advances shall be suspended until the Agent shall notify the Borrowers and the Lenders that the circumstances causing such suspension no longer exist; provided, however, that before making any such demand, each Lender agrees to use reasonable efforts (consistent with its internal policy and legal and regulatory restrictions) to designate a different Eurodollar Lending Office if the making of such a designation would allow such Lender or its Eurodollar Lending Office to continue to perform its obligations to make Eurodollar Rate Advances or to continue to fund or maintain Eurodollar Rate Advances and would not, in the judgment of such Lender, be otherwise disadvantageous to such Lender.

SECTION 2.13 Payments and Computations. (a) The Borrowers shall make each payment hereunder not later than 11:00 A.M. (New York City time) on the day when due to the Agent at the Agent's Account in same day funds and without deduction, set off or counterclaim. The Agent will promptly thereafter cause to be distributed like funds relating to the payment of principal or interest or facility fees ratably (other than amounts payable pursuant to Section 2.03, 2.04, 2.11, 2.14 or 8.04(c)) to the Lenders for the account of their respective Applicable Lending Offices, and like funds relating to the payment of any other amount payable to any Lender to such Lender for the account of its Applicable Lending Office, in each case to be applied in accordance with the terms of this Agreement. Upon any Assuming Lender becoming a Lender hereunder as a result of a Revolving Credit Commitment Increase pursuant to Section 2.18, and upon the Agent's receipt of such Lender's Assumption Agreement and recording of the information contained therein in the Register, from and after the applicable Increase Date, the Agent shall make all payments hereunder and under any Notes issued in connection therewith in respect of the interest assumed thereby to the Assuming Lender. Upon its acceptance of an Assignment and Acceptance and recording of the information contained therein in the Register pursuant to Section 8.07(c), from and after the effective date specified in such Assignment and Acceptance, the Agent shall make all payments hereunder and under any Notes in respect of the interest assigned thereby to the Lender assignee thereunder, and the parties to such Assignment and Acceptance shall make all appropriate adjustments in such payments for periods prior to such effective date directly between themselves.

(b) Each Borrower hereby authorizes each Lender, if and to the extent payment owed to such Lender is not made when due hereunder or under any Note held by such Lender, to charge from time to time against any or all of such Borrower's accounts with such Lender any amount so due.

(c) All computations of interest based on the Base Rate shall be made by the Agent on the basis of a year of 365 or 366 days, as the case may be, and all computations of interest based on the Eurodollar Rate, the LIBO Rate or the Federal Funds Rate, or in respect of Fixed Rate Advances, facility fees, Letter of Credit commissions, any other fees shall be made by the Agent on the basis of a year of 360 days, in each case for the actual number of days (including the first day but excluding the last day) occurring in the period for which such interest, fees or commissions are payable. Each determination by the Agent of an interest rate hereunder shall be conclusive and binding for all purposes, absent manifest error.

(d) Whenever any payment hereunder or under any Notes shall be stated to be due on a day other than a Business Day, such payment shall be made on the next succeeding Business Day, and such extension of time shall in such case be included in the computation of payment of interest or facility fee, as the case may be; provided, however, that, if such extension would cause payment of interest on or

principal of Eurodollar Rate Advances or LIBO Rate Advances to be made in the next following calendar month, such payment shall be made on the next preceding Business Day.

(e) Unless the Agent shall have received notice from the applicable Borrower prior to the date on which any payment is due to the Lenders hereunder that such Borrower will not make such payment in full, the Agent may assume that such Borrower has made such payment in full to the Agent on such date and the Agent may, in reliance upon such assumption, cause to be distributed to each Lender on such due date an amount equal to the amount then due such Lender. If and to the extent the applicable Borrower shall not have so made such payment in full to the Agent, each Lender shall repay to the Agent forthwith on demand such amount distributed to such Lender together with interest thereon, for each day from the date such amount is distributed to such Lender until the date such Lender repays such amount to the Agent, at the Federal Funds Rate.

SECTION 2.14 Taxes. (a) Any and all payments by the Borrowers hereunder or under any Notes shall be made, in accordance with Section 2.13, free and clear of and without deduction for any and all present or future taxes, levies, imposts, deductions, charges or withholdings, and all liabilities with respect thereto, excluding, in the case of each Lender and the Agent, taxes imposed on its net income, and franchise taxes imposed on it in lieu of net income taxes, by the jurisdiction under the laws of which such Lender or the Agent (as the case may be) is organized or any political subdivision thereof and, in the case of each Lender, taxes imposed on its net income, and franchise taxes imposed on it in lieu of net income taxes, by the jurisdiction of such Lender's Applicable Lending Office or any political subdivision thereof (all such non-excluded taxes, levies, imposts, deductions, charges, withholdings and liabilities in respect of payments hereunder or under any Notes being hereinafter referred to as "Taxes"). If the Borrowers shall be required by law to deduct any Taxes from or in respect of any sum payable hereunder or under any Note to any Lender or the Agent, (i) the sum payable shall be increased as may be necessary so that after making all required deductions (including deductions applicable to additional sums payable under this Section 2.14) such Lender or the Agent (as the case may be) receives an amount equal to the sum it would have received had no such deductions been made, (ii) the Borrowers shall make such deductions and (iii) the Borrowers shall pay the full amount deducted to the relevant taxation authority or other authority in accordance with applicable law.

(b) In addition, the Borrowers shall pay any present or future stamp or documentary taxes or any other excise or property taxes, charges or similar levies that arise from any payment made hereunder or under any Notes or from the execution, delivery or registration of, performing under, or otherwise with respect to, this Agreement or any Notes (hereinafter referred to as "Other Taxes").

(c) The Borrowers shall indemnify each Lender and the Agent for and hold it harmless against the full amount of Taxes or Other Taxes (including, without limitation, taxes of any kind imposed by any jurisdiction on amounts payable under this Section 2.14) imposed on or paid by such Lender or the Agent (as the case may be) and any liability (including penalties, interest and expenses) arising therefrom or with respect thereto. This indemnification shall be made within 30 days from the date such Lender or the Agent (as the case may be) makes written demand therefor.

(d) Within 30 days after the date of any payment of Taxes, the Borrowers shall furnish to the Agent, at its address referred to in Section 8.02, the original or a certified copy of a receipt evidencing such payment. In the case of any payment hereunder or under any Notes by or on behalf of the Borrowers through an account or branch outside the United States or by or on behalf of the Borrowers by a payor that is not a United States person, if the Borrowers determine that no Taxes are payable in respect thereof, the Borrowers shall furnish, or shall cause such payor to furnish, to the Agent, at such address, an opinion of counsel acceptable to the Agent stating that such payment is exempt from Taxes.

For purposes of this subsection (d) and subsection (e), the terms “United States” and “United States person” shall have the meanings specified in Section 7701 of the Internal Revenue Code.

(e) Each Lender organized under the laws of a jurisdiction outside the United States, on or prior to the date of its execution and delivery of this Agreement in the case of each Initial Lender and on the date of the Assumption Agreement or the Assignment and Acceptance pursuant to which it becomes a Lender in the case of each other Lender, and from time to time thereafter as requested in writing by the Borrowers (but only so long as such Lender remains lawfully able to do so), shall provide each of the Agent and the Borrowers with two original Internal Revenue Service forms W-8ECI or W-8BEN, as appropriate, or any successor or other form prescribed by the Internal Revenue Service, certifying that such Lender is exempt from or entitled to a reduced rate of United States withholding tax on payments pursuant to this Agreement or any Notes. Each Lender organized under the laws of a jurisdiction outside the United States, on or prior to the date of execution and delivery of this Agreement, or at the time such Lender first becomes a party to this Agreement, represents and warrants that it is lawfully able to provide the Borrowers with a valid form W-8ECI or W-8BEN resulting in exemption from United States withholding tax on payments of interest pursuant to this Agreement or any Notes. If any form or document referred to in this subsection (e) requires the disclosure of information, other than information necessary to compute the tax payable and information required on the date hereof by Internal Revenue Service form W-8ECI or W-8BEN, that the Lender reasonably considers to be confidential, the Lender shall give notice thereof to the Borrowers and shall not be obligated to include in such form or document such confidential information.

(f) For any period with respect to which a Lender has failed to provide the Borrowers with the appropriate form described in Section 2.14(e) (other than if such failure is due to a change in law occurring subsequent to the date on which a form originally was required to be provided, or if such form otherwise is not required under subsection (e) above), such Lender shall not be entitled to indemnification under Section 2.14(a) or (c) with respect to Taxes imposed by the United States by reason of such failure; provided, however, that should a Lender become subject to Taxes because of its failure to deliver a form required hereunder, the Borrowers shall take such steps as the Lender shall reasonably request to assist the Lender to recover such Taxes.

(g) Any Lender claiming any additional amounts payable pursuant to this Section 2.14 agrees to use reasonable efforts (consistent with its internal policy and legal and regulatory restrictions) to change the jurisdiction of its Eurodollar Lending Office if the making of such a change would avoid the need for, or reduce the amount of, any such additional amounts that may thereafter accrue and would not, in the reasonable judgment of such Lender, be otherwise disadvantageous to such Lender.

SECTION 2.15 Sharing of Payments, Etc. If any Lender shall obtain any payment (whether voluntary, involuntary, through the exercise of any right of set-off, or otherwise) on account of the Advances owing to it (other than pursuant to Section 2.11, 2.14 or 8.04(c)) in excess of its ratable share of payments on account of the Advances obtained by all the Lenders, such Lender shall forthwith purchase from the other Lenders such participations in the Advances owing to them as shall be necessary to cause such purchasing Lender to share the excess payment ratably with each of them; provided, however, that if all or any portion of such excess payment is thereafter recovered from such purchasing Lender, such purchase from each Lender shall be rescinded and such Lender shall repay to the purchasing Lender the purchase price to the extent of such recovery together with an amount equal to such Lender’s ratable share (according to the proportion of (i) the amount of such Lender’s required repayment to (ii) the total amount so recovered from the purchasing Lender) of any interest or other amount paid or payable by the purchasing Lender in respect of the total amount so recovered. The Borrowers agree that any Lender so purchasing a participation from another Lender pursuant to this Section 2.15 may, to the

fullest extent permitted by law, exercise all its rights of payment (including the right of set-off) with respect to such participation as fully as if such Lender were the direct creditor of the respective Borrowers in the amount of such participation.

SECTION 2.16 Letters of Credit. (a) The Letter of Credit Facility. Each Issuing Bank severally agrees, on the terms and conditions hereinafter set forth, to issue standby letters of credit (together with the Existing Letters of Credit, the "Letters of Credit") for the account of any Borrower from time to time on any Business Day during the period from the date hereof until 10 days before the Termination Date in an aggregate Available Amount for all Letters of Credit not to exceed at any time the lesser of (i) the Letter of Credit Facility at such time and (ii) the Unused Revolving Credit Commitments of the Lenders at such time. No Letter of Credit shall have an expiration date (including all rights of the applicable Borrower or the beneficiary to require renewal) later than the earlier of (A) 10 days before the Termination Date and (B) one year after the date of issuance thereof (but such Letter of Credit may by its terms be automatically renewable annually upon notice (a "Notice of Renewal") given to the Issuing Bank that issued such Letter of Credit and the Agent on or prior to any date for notice of renewal set forth in such Letter of Credit but in any event at least three Business Days prior to the date of the proposed renewal of such Letter of Credit and upon fulfillment of the applicable conditions set forth in Article III unless such Issuing Bank has notified the Borrowers (with a copy to the Agent) on or prior to the date for notice of termination set forth in such Letter of Credit but in any event at least 30 Business Days prior to the date of automatic renewal of its election not to renew such Letter of Credit (a "Notice of Termination")); provided that the terms of each Letter of Credit that is automatically renewable annually shall (x) require the Issuing Bank that issued such Letter of Credit to give the beneficiary named in such Letter of Credit notice of any Notice of Termination, (y) permit such beneficiary, upon receipt of such notice, to draw under such Letter of Credit prior to the date such Letter of Credit otherwise would have been automatically renewed and (z) not permit the expiration date (after giving effect to any renewal) of such Letter of Credit in any event to be extended to a date after the dates referred to in clause (A) above. If either a Notice of Renewal is not given by the applicable Borrower or a Notice of Termination is given by the relevant Issuing Bank pursuant to the immediately preceding sentence, such Letter of Credit shall expire on the date on which it otherwise would have been automatically renewed; provided, however, that even in the absence of receipt of a Notice of Renewal the relevant Issuing Bank may in its discretion, unless instructed to the contrary by the Agent or the applicable Borrower, deem that a Notice of Renewal had been timely delivered and in such case, a Notice of Renewal shall be deemed to have been so delivered for all purposes under this Agreement. Each Letter of Credit shall contain a provision authorizing the Issuing Bank that issued such Letter of Credit to deliver to the beneficiary of such Letter of Credit, upon the occurrence and during the continuance of an Event of Default, a notice (a "Default Termination Notice") terminating such Letter of Credit and giving such beneficiary 15 days to draw such Letter of Credit. Within the limits of the Letter of Credit Facility, and subject to the limits referred to above, the Borrowers may request the issuance of Letters of Credit under this Section 2.16(a), repay any Letter of Credit Advances resulting from drawings thereunder pursuant to Section 2.16(d) and request the issuance of additional Letters of Credit under this Section 2.16(a).

(b) Request for Issuance. (i) Each Letter of Credit shall be issued upon notice, given not later than 11:00 A.M. (New York City time) on the second Business Day prior to the date of the proposed issuance of such Letter of Credit, by any Borrower to any Issuing Bank, which shall give to the Agent and each Lender prompt notice thereof by telecopier. Each such notice of issuance of a Letter of Credit (a "Notice of Issuance") shall be by telephone, confirmed immediately in writing, or telecopier, specifying therein the requested (A) date of such issuance (which shall be a Business Day), (B) Available Amount of such Letter of Credit, (C) expiration date of such Letter of Credit, (D) name and address of the beneficiary of such Letter of Credit and (E) form of such Letter of Credit, and shall be accompanied by such application and agreement for letter of credit as such Issuing Bank may specify to such Borrower for use in connection with such requested Letter of Credit (in each case, a "Letter of Credit Agreement"). If

(x) the requested form of such Letter of Credit is reasonably acceptable to such Issuing Bank in its sole discretion and (y) it has not received notice of objection to such issuance from the Required Lenders, such Issuing Bank will, upon fulfillment of the applicable conditions set forth in Article III, make such Letter of Credit available to the applicable Borrower at its office referred to in Section 8.02 or as otherwise agreed with such Borrower in connection with such issuance. In the event and to the extent that the provisions of any Letter of Credit Agreement shall conflict with this Agreement, the provisions of this Agreement shall govern.

(ii) Each Issuing Bank shall furnish (A) to the Agent on the first Business Day of each week a written report summarizing issuance and expiration dates of Letters of Credit issued by such Issuing Bank during the previous week and drawings during such week under all Letters of Credit issued by such Issuing Bank, (B) to each Lender on the first Business Day of each month a written report summarizing issuance and expiration dates of Letters of Credit issued by such Issuing Bank during the preceding month and drawings during such month under all Letters of Credit issued by such Issuing Bank and (C) to the Agent and each Lender on the first Business Day of each calendar quarter a written report setting forth the average daily aggregate Available Amount during the preceding calendar quarter of all Letters of Credit issued by such Issuing Bank.

(c) Participations. By the issuance of a Letter of Credit (or an amendment to a Letter of Credit increasing the amount thereof) and without any further action on the part of the applicable Issuing Bank or the Lenders, such Issuing Bank hereby grants to each Lender, and each Lender hereby acquires from such Issuing Bank, a participation in such Letter of Credit equal to such Lender's Pro Rata Share of the Available Amount of such Letter of Credit. Each Borrower hereby agrees to each such participation. In consideration and in furtherance of the foregoing, each Lender hereby absolutely and unconditionally agrees to pay to the Agent, for the account of such Issuing Bank, such Lender's Pro Rata Share of each drawing made under a Letter of Credit funded by such Issuing Bank and not reimbursed by the applicable Borrower on the date made, or of any reimbursement payment required to be refunded to any Borrower for any reason. Each Lender acknowledges and agrees that its obligation to acquire participations pursuant to this paragraph in respect of Letters of Credit is absolute and unconditional and shall not be affected by any circumstance whatsoever, including any amendment, renewal or extension of any Letter of Credit or the occurrence and continuance of a Default or reduction or termination of the Revolving Credit Commitments, and that each such payment shall be made without any offset, abatement, withholding or reduction whatsoever. Each Lender further acknowledges and agrees that its participation in each Letter of Credit will be automatically adjusted to reflect such Lender's Pro Rata Share of the Available Amount of such Letter of Credit at each time such Lender's Revolving Credit Commitment is amended pursuant to the operation of Section 2.18, an assignment in accordance with Section 8.07 or otherwise pursuant to this Agreement.

(d) Drawing and Reimbursement. The payment by any Issuing Bank of a draft drawn under any Letter of Credit shall constitute for all purposes of this Agreement the making by such Issuing Bank of a "Letter of Credit Advance", which shall be a Base Rate Advance, in the amount of such draft. Each Issuing Bank shall give prompt notice to the applicable Borrower and the Agent of each drawing under any Letter of Credit issued by it. Upon written demand by such Issuing Bank, each Lender shall pay to the Agent such Lender's Pro Rata Share of such outstanding Letter of Credit Advance, by making available for the account of its Applicable Lending Office to the Agent for the account of such Issuing Bank, by deposit to the Agent's Account, in same day funds, an amount equal to the portion of the outstanding principal amount of such Letter of Credit Advance to be funded by such Lender. Each Lender acknowledges and agrees that its obligation to make Letter of Credit Advances pursuant to this paragraph in respect of Letters of Credit is absolute and unconditional and shall not be affected by any circumstance whatsoever, including any amendment, renewal or extension of any Letter of Credit or the

occurrence and continuance of a Default or reduction or termination of the Revolving Credit Commitments, and that each such payment shall be made without any offset, abatement, withholding or reduction whatsoever. Promptly after receipt thereof, the Agent shall transfer such funds to such Issuing Bank. Each Lender agrees to fund its Pro Rata Share of an outstanding Letter of Credit Advance on (i) the Business Day on which demand therefor is made by the Issuing Bank which made such Advance, provided notice of such demand is given not later than 11:00 A.M. (New York City time) on such Business Day or (ii) the first Business Day next succeeding such demand if notice of such demand is given after such time. If and to the extent that any Lender shall not have so made the amount of such Letter of Credit Advance available to the Agent, such Lender agrees to pay to the Agent forthwith on demand such amount together with interest thereon, for each day from the date of demand by such Issuing Bank until the date such amount is paid to the Agent, at the Federal Funds Rate for its account or the account of such Issuing Bank, as applicable. If such Lender shall pay to the Agent such amount for the account of such Issuing Bank on any Business Day, such amount so paid in respect of principal shall constitute a Letter of Credit Advance made by such Lender on such Business Day for purposes of this Agreement, and the outstanding principal amount of the Letter of Credit Advance made by such Issuing Bank shall be reduced by such amount on such Business Day.

(e) Failure to Make Letter of Credit Advances. The failure of any Lender to make the Letter of Credit Advance to be made by it on the date specified in Section 2.16(d) shall not relieve any other Lender of its obligation hereunder to make its Letter of Credit Advance on such date, but no Lender shall be responsible for the failure of any other Lender to make the Letter of Credit Advance to be made by such other Lender on such date.

(f) Obligations Absolute. The obligations of the Borrowers under this Agreement, any Letter of Credit Agreement and any other agreement or instrument relating to any Letter of Credit shall be unconditional and irrevocable, and shall be paid strictly in accordance with the terms of this Agreement, such Letter of Credit Agreement and such other agreement or instrument under all circumstances, including, without limitation, the following circumstances:

- (i) any lack of validity or enforceability of this Agreement, any Note, any Letter of Credit Agreement, any Letter of Credit or any other agreement or instrument relating thereto (all of the foregoing being, collectively, the "L/C Related Documents");
- (ii) any change in the time, manner or place of payment of, or in any other term of, all or any of the obligations of any Borrower in respect of any L/C Related Document or any other amendment or waiver of or any consent to departure from all or any of the L/C Related Documents;
- (iii) the existence of any claim, set-off, defense or other right that any Borrower may have at any time against any beneficiary or any transferee of a Letter of Credit (or any Persons for whom any such beneficiary or any such transferee may be acting), any Issuing Bank or any other Person, whether in connection with the transactions contemplated by the L/C Related Documents or any unrelated transaction;
- (iv) any statement or any other document presented under a Letter of Credit proving to be forged, fraudulent, invalid or insufficient in any respect or any statement therein being untrue or inaccurate in any respect;
- (v) payment by any Issuing Bank under a Letter of Credit against presentation of a draft or certificate that does not strictly comply with the terms of such Letter of Credit, unless

such draft or certificate is substantially different from the applicable form specified by such Letter of Credit;

(vi) any exchange, release or non-perfection of any Letter of Credit Collateral or other collateral, or any release or amendment or waiver of or consent to departure from any guarantee, for all or any of the obligations of the applicable Borrower in respect of the L/C Related Documents; or

(vii) any other circumstance or happening whatsoever, whether or not similar to any of the foregoing, including, without limitation, any other circumstance that might otherwise constitute a defense available to, or a discharge of, the applicable Borrower or a guarantor.

(g) Compensation. (i) The Borrowers shall pay to the Agent for the account of each Lender a commission on such Lender's Pro Rata Share of the average daily aggregate Available Amount of all Letters of Credit outstanding from time to time at a rate per annum equal to the Applicable Rate for Eurodollar Rate Advances in effect from time to time calculated and payable for the quarterly period ending on the last Business Day of each February, May, August and November, and on the Termination Date.

(ii) The Borrower shall pay to each Issuing Bank, for its own account, such commissions, issuance fees, fronting fees, transfer fees and other fees and charges in connection with the issuance or administration of each Letter of Credit as the Borrowers and such Issuing Bank shall agree.

(h) Existing Letters of Credit. Effective as of the Effective Date (i) the letters of credit issued for the account of the Borrowers prior to such date under the Existing Credit Agreement and set forth on Schedule 2.16(h) hereto (such letters of credit being the "Existing Letters of Credit") in an aggregate face amount not exceeding the total amount set forth on such Schedule will be deemed to have been issued as, and be, Letters of Credit hereunder and (ii) the Existing Letters of Credit and the reimbursement obligations in respect thereof shall be obligations of the Borrowers hereunder.

SECTION 2.17 Use of Proceeds. The proceeds of the Advances shall be available (and the Borrowers agree that they shall use such proceeds) for general corporate purposes of the Borrowers and their Subsidiaries (including share repurchases, refinancing existing indebtedness and consensual acquisitions).

SECTION 2.18 Increase in the Aggregate Commitments. (a) The Borrowers may, at any time but in any event not more than once in any calendar year prior to the Termination Date, by notice to the Agent, request that the aggregate amount of the Revolving Credit Commitment be increased by an amount of \$10,000,000 or an integral multiple of \$10,000,000 in excess thereof (each a "Revolving Credit Commitment Increase") to be effective as of a date that is at least 90 days prior to the scheduled Termination Date then in effect (the "Increase Date") as specified in the related notice to the Agent; provided, however that (i) in no event shall the aggregate amount of the Revolving Credit Commitments at any time exceed \$475,000,000 and (ii) on the date of any request by the Borrowers for a Revolving Credit Commitment Increase and on the related Increase Date, no Default shall have occurred and be continuing.

(b) The Agent shall promptly notify the Lenders of a request by the Borrowers for a Revolving Credit Commitment Increase, which notice shall include (i) the proposed amount of such requested Revolving Credit Commitment Increase, (ii) the proposed Increase Date and (iii) the date by which Lenders wishing to participate in the Revolving Credit Commitment Increase must commit to an

increase in the amount of their respective Revolving Credit Commitments (the "Commitment Date"). Each Lender that is willing to participate in such requested Revolving Credit Commitment Increase (each an "Increasing Lender") shall, in its sole discretion, give written notice to the Agent on or prior to the Commitment Date of the amount by which it is willing to increase its Revolving Credit Commitment. If the Lenders notify the Agent that they are willing to increase the amount of their respective Revolving Credit Commitments by an aggregate amount that exceeds the amount of the requested Revolving Credit Commitment Increase, the requested Revolving Credit Commitment Increase shall be allocated among the Lenders willing to participate therein in such amounts as are agreed between the Borrowers and the Agent.

(c) Promptly following each Commitment Date, the Agent shall notify the Borrowers as to the amount, if any, by which the Lenders are willing to participate in the requested Revolving Credit Commitment Increase. If the aggregate amount by which the Lenders are willing to participate in any requested Revolving Credit Commitment Increase on any such Commitment Date is less than the requested Revolving Credit Commitment Increase, then the Borrowers may extend offers to one or more Eligible Assignees to participate in any portion of the requested Revolving Credit Commitment Increase that has not been committed to by the Lenders as of the applicable Commitment Date; provided, however, that the Revolving Credit Commitment of each such Eligible Assignee shall be in an amount of \$5,000,000 or an integral multiple of \$1,000,000 in excess thereof.

(d) On each Increase Date, each Eligible Assignee that accepts an offer to participate in a requested Revolving Credit Commitment Increase in accordance with Section 2.18(c) (each such Eligible Assignee, an "Assuming Lender") shall become a Lender party to this Agreement as of such Increase Date and the Commitment of each Increasing Lender for such requested Revolving Credit Commitment Increase shall be so increased by such amount (or by the amount allocated to such Lender pursuant to the last sentence of Section 2.18(b)) as of such Increase Date; provided, however, that the Agent shall have received on or before such Increase Date the following, each dated such date:

(i) (A) certified copies of resolutions of the Board of Directors of each Borrower or an authorized committee of such Board approving the Revolving Credit Commitment Increase and the corresponding modifications to this Agreement and (B) an opinion of counsel for the Borrowers (which may be in-house counsel), in substantially the form of Exhibit D hereto;

(ii) an assumption agreement from each Assuming Lender, if any, in form and substance satisfactory to the Borrowers and the Agent (each an "Assumption Agreement"), duly executed by such Eligible Assignee, the Agent and the Borrowers; and

(iii) confirmation from each Increasing Lender of the increase in the amount of its Revolving Credit Commitment in a writing satisfactory to the Borrowers and the Agent.

On each Increase Date, upon fulfillment of the conditions set forth in the immediately preceding sentence of this Section 2.18(d), the Agent shall notify the Lenders (including, without limitation, each Assuming Lender) and the Borrowers, on or before 1:00 P.M. (New York City time), by telecopier, of the occurrence of the Revolving Credit Commitment Increase to be effected on such Increase Date and shall record in the Register the relevant information with respect to each Increasing Lender and each Assuming Lender on such date.

SECTION 2.19 Obligations and Communications of the Borrowers. All obligations, representations, warranties, covenants and other agreements of either or both of the Borrowers under this Agreement, the Notes and the other Loan Documents shall be joint and several liabilities of both of the Borrowers; provided, however, that anything herein or in the other Loan Documents to the contrary

notwithstanding, the liability of the Operating Company with respect to the obligations of the Holding Company shall in no event exceed the maximum permissible amount for which the Operating Company may be obligated under § 548 of the United States Bankruptcy Code or applicable state fraudulent conveyance law. Any notice given to, any knowledge held by or any knowledge imputed to either Borrower shall be deemed to be within the knowledge of both of the Borrowers. Any certificate, notice, request, statement or other document or communication signed or made on behalf or in the name of either or both of the Borrowers shall be deemed to have been signed or made by both of the Borrowers unless expressly disclaimed in a particular document or communication. Reference to a single specific Borrower, whether by name, officer's title, letterhead or otherwise, shall not constitute an express disclaimer of any of the foregoing. Any telephone notice permitted to be given by the Borrowers under this Article II shall be sufficient if given by an appropriate officer of either Borrower, and shall be deemed to have been given by both Borrowers.

**SECTION 2.20 Subrogation and Contribution.** Each Borrower covenants and agrees that, until the obligations of the Borrowers under this Agreement and the other Loan Documents have been fully paid and satisfied, any and all subrogation, contribution and other similar rights of such Borrower against or in respect of (A) the other Borrower, (B) any of the assets and properties of the other Borrower, or (C) any other co-obligor or indemnitor of any of the other Borrower's payments or obligations under any of the Loan Documents, whether now existing or hereafter acquired or created, and whether resulting from any payment made by such Borrower or otherwise, shall be subordinate and inferior in dignity and deferred as to payment to the full payment and satisfaction of all of such obligations. (However, such subordination of subrogation, contribution and similar rights is not intended to include, and this Section is not intended to affect, the intercompany advances and dividends permitted under this Agreement.) Neither Borrower shall seek any payment or exercise or enforce any right, power, privilege, remedy or interest that it may have with respect to any such subrogation, contribution or other similar right except with the prior written consent of the Agent (with the consent of the Required Lenders, as and if required) and for the benefit of all of the Lenders. Any payment, asset or property delivered to or for the benefit of any Borrower in respect of any such subrogation, contribution or other similar right shall be accepted in trust for the benefit of all of the Lenders and shall be promptly paid or delivered to the Agent (for the benefit of all of the Lenders) to be credited and applied to the payment and satisfaction of the obligations of the Borrowers under this Agreement and the other Loan Documents, whether contingent, matured or unmatured, or to be held by the Agent (for the benefit of all of the Lenders) as additional collateral, as the Agent (with the consent of the Required Lenders, as and if required) may elect in its sole and absolute discretion.

**SECTION 2.21 Fees.**

(a) **Facility Fee.** The Borrowers, jointly and severally, agree to pay to the Agent for the account of each Lender a facility fee on the aggregate amount of such Lender's Revolving Credit Commitment from the date hereof in the case of each Initial Lender and from the effective date specified in the Assumption Agreement or in the Assignment and Acceptance pursuant to which it became a Lender in the case of each other Lender until the Termination Date at a rate per annum equal to the Applicable Rate in effect from time to time, payable in arrears quarterly on the last day of each February, May, August and November, commencing August 31, 2007, and on the Termination Date.

(b) **Agent's Fees.** The Borrowers, jointly and severally, shall pay to the Agent for its own account such fees as may from time to time be agreed between the Borrowers and the Agent.

ARTICLE III

CONDITIONS TO EFFECTIVENESS AND LENDING

SECTION 3.01 Conditions Precedent to Effectiveness of Sections 2.01, 2.03, 2.04 and 2.16. Sections 2.01, 2.03, 2.04 and 2.16 of this Agreement shall become effective on and as of the first date (the "Effective Date") on which the following conditions precedent have been satisfied:

(a) There shall have occurred no Material Adverse Change since May 31, 2006.

(b) There shall exist no action, suit, investigation, litigation or proceeding affecting the Holding Company or any of its Subsidiaries pending or threatened before any court, governmental agency or arbitrator that (i) would be reasonably likely to have a Material Adverse Effect or (ii) purports to affect the legality, validity or enforceability of this Agreement or any Note or the consummation of the transactions contemplated hereby.

(c) All governmental and third party consents and approvals necessary in connection with the transactions contemplated hereby shall have been obtained (without the imposition of any conditions that are not acceptable to the Lenders) and shall remain in effect, and no law or regulation shall be applicable in the reasonable judgment of the Lenders that restrains, prevents or imposes materially adverse conditions upon the transactions contemplated hereby.

(d) The Borrowers shall have paid all accrued fees and expenses of the Agent and the Lenders (including the accrued fees and expenses of counsel to the Agent).

(e) On the Effective Date, the following statements shall be true and the Agent shall have received for the account of each Lender a certificate signed by a duly authorized officer of the Holding Company, dated the Effective Date, stating that:

(i) The representations and warranties contained in Section 4.01 are correct on and as of the Effective Date, and

(ii) No event has occurred and is continuing that constitutes a Default.

(f) The Agent shall have received on or before the Effective Date the following, each dated such day, in form and substance satisfactory to the Agent and (except for any Revolving Credit Notes or Term Loan Notes) in sufficient copies for each Lender:

(i) (a) The Revolving Credit Notes to the order of any Lenders requesting the same and (b) the Term Loan Notes to the order of any Lenders requesting to the same.

(ii) Certified copies of the resolutions of the Board of Directors or (in the case of the Term Loan Facility) an authorized committee of the Board of Directors of each Borrower approving this Agreement and any Notes, and of all documents evidencing other necessary corporate action and governmental approvals, if any, with respect to this Agreement and any Notes.

(iii) A certificate of the Secretary or an Assistant Secretary of each Borrower certifying the names and true signatures of the officers of such Borrower authorized to sign this Agreement, the Notes and the other documents to be delivered hereunder.

(iv) A favorable opinion of Devereux Chatillon, Senior Vice President and General Counsel of the Borrowers, substantially in the form of Exhibit D hereto and as to such other matters as the Agent may reasonably request.

(v) Such documents and certificates as the Agent or its counsel may reasonably request relating to the organization, existence and good standing of the Borrowers, and any other legal matters relating to the Borrowers or the Loan Documents, all in form and substance satisfactory to the Agent and its counsel and as further described in the list of closing documents attached as Exhibit E.

(g) The Borrowers shall have terminated the commitments, and, prior to or simultaneously with the initial Borrowing hereunder, paid in full all Debt, interest, fees and other amounts outstanding, under the Existing Credit Agreement, and each of the Lenders that is a party to such credit facility hereby waives, upon execution of this Agreement, the five Business Days' notice required by Section 2.05 of said Credit Agreement relating to the termination of commitments thereunder.

**SECTION 3.02 Conditions Precedent to each Borrowing, each Issuance and Renewal of Letters of Credit and each Increase Date.** The obligation of each Lender to make an Advance (other than a Letter of Credit Advance made by an Issuing Bank or a Lender pursuant to Section 2.16(d)) on the occasion of each Borrowing (including the initial Borrowing) the obligation of each Issuing Bank to issue Letters of Credit (including the initial issuance) or renew a Letter of Credit from time to time and each Revolving Credit Commitment Increase shall be subject to the conditions precedent that the Effective Date shall have occurred and on the date of such Borrowing, issuance or renewal or the applicable Increase Date the following statements shall be true (and each of the giving of the applicable Notice of Revolving Credit Borrowing, Notice of Term Loan Borrowing, Notice of Issuance, Notice of Renewal or request for Revolving Credit Commitment Increase and the acceptance by the Borrowers of the proceeds of such Borrowing or such Letter of Credit issuance or the renewal of such Letter of Credit shall constitute a representation and warranty by the Borrowers that on the date of such Borrowing, issuance, renewal or Increase Date such statements are true):

(i) the representations and warranties contained in Section 4.01 (excluding the representation and warranty contained in Section 4.01(f)(ii)) are correct on and as of such date before and after giving effect to such Borrowing, issuance or renewal or such Increase Date and to the application of the proceeds therefrom, as though made on and as of such date; and

(ii) no event has occurred and is continuing, or would result from such Borrowing, issuance or renewal or Increase Date or from the application of the proceeds therefrom, that constitutes a Default.

**SECTION 3.03 Conditions Precedent to Each Competitive Bid Borrowing.** The obligation of each Lender that is to make a Competitive Bid Advance on the occasion of a Competitive Bid Borrowing to make such Competitive Bid Advance as part of such Competitive Bid Borrowing is subject to the conditions precedent that (i) the Agent shall have received the written confirmatory Notice of Competitive Bid Borrowing with respect thereto, (ii) on or before the date of such Competitive Bid Borrowing, but prior to such Competitive Bid Borrowing, the Agent shall have received, to the extent requested by such Lender, a Competitive Bid Note payable to the order of such Lender for each of the one or more Competitive Bid Advances to be made by such Lender as part of such Competitive Bid Borrowing, in a principal amount equal to the principal amount of the Competitive Bid Advance to be evidenced thereby and otherwise on such terms as were agreed to for such Competitive Bid Advance in accordance with Section 2.03, and (iii) on the date of such Competitive Bid Borrowing the following statements shall be true (and each of the giving of the applicable Notice of Competitive Bid Borrowing and the acceptance by the applicable Borrower of the proceeds of such Competitive Bid Borrowing shall constitute a representation and warranty by the Borrowers that on the date of such Competitive Bid Borrowing such statements are true):

(a) the representations and warranties contained in Section 4.01 (excluding the representation and warranty contained in Section 4.01(f)(ii)) are correct on and as of the date of such Competitive Bid Borrowing, before and after giving effect to such Competitive Bid Borrowing and to the application of the proceeds therefrom, as though made on and as of such date, and

(b) no event has occurred and is continuing, or would result from such Competitive Bid Borrowing or from the application of the proceeds therefrom, that constitutes a Default.

SECTION 3.04 Determinations Under Section 3.01. For purposes of determining compliance with the conditions specified in Section 3.01, each Lender shall be deemed to have consented to, approved or accepted or to be satisfied with each document or other matter required thereunder to be consented to or approved by or acceptable or satisfactory to the Lenders unless an officer of the Agent responsible for the transactions contemplated by the Loan Documents shall have received notice from such Lender prior to the date that the Borrowers, by notice to the Lenders, designate as the proposed Effective Date, specifying its objection thereto. The Agent shall promptly notify the Lenders of the occurrence of the Effective Date.

#### ARTICLE IV

##### REPRESENTATIONS AND WARRANTIES

SECTION 4.01 Representations and Warranties of the Borrowers. The Borrowers represent and warrant as follows:

(a) Each Borrower is a corporation duly organized, validly existing and in good standing under the laws of the State of its incorporation.

(b) The execution, delivery and performance by each Borrower of this Agreement and the other Loan Documents to be delivered by it, and the consummation of the transactions contemplated hereby, are within such Borrower's corporate powers, have been duly authorized by all necessary corporate action, and do not contravene (i) such Borrower's charter or by-laws or (ii) law or any contractual restriction binding on or affecting such Borrower.

(c) This Agreement has been, and each of the other Loan Documents to be delivered by it when delivered hereunder will have been, duly executed and delivered by each Borrower. This Agreement is, and each of the other Loan Documents when delivered hereunder will be, the legal, valid and binding obligation of each Borrower party thereto enforceable against such Borrower in accordance with their respective terms.

(d) No authorization or approval or other action by, and no notice to or filing with, any governmental authority or regulatory body or any other third party is required for the due execution, delivery and performance by any Borrower of this Agreement or the other Loan Documents to be delivered by it.

(e) There is no pending or threatened action, suit, investigation, litigation or proceeding, including, without limitation, any Environmental Claim, affecting the Holding Company or any of its Subsidiaries before any court, governmental agency or arbitrator that (i) would be reasonably likely to have a Material Adverse Effect or (ii) purports to affect the legality, validity or enforceability of this Agreement or any Note or the consummation of the transactions contemplated hereby.

(f) (i) The Consolidated balance sheet of the Holding Company and its Subsidiaries as at May 31, 2006, and the related Consolidated statements of income and cash flows of the Holding Company and its Subsidiaries for the fiscal year then ended, accompanied by an opinion of Ernst & Young LLP, independent public accountants, the consolidating balance sheet of the Holding Company and its Subsidiaries as at May 31, 2006, and the related consolidating statements of income and cash flows of the Holding Company and its Subsidiaries for the fiscal year then ended, duly certified by the chief financial officer of the Holding Company, and the Consolidated and consolidating balance sheet of the Holding Company and its Subsidiaries as at February 28, 2007, and the related Consolidated and consolidating statements of income and cash flows of the Holding Company and its Subsidiaries for the nine months then ended, duly certified by the chief financial officer of the Holding Company, copies of which have been furnished to each Lender, fairly present, subject, in the case of said balance sheet as at February 28, 2007, and said statements of income and cash flows for the nine months then ended, to year-end audit adjustments, the Consolidated financial condition of the Holding Company and its Subsidiaries as at such dates and the Consolidated results of the operations of the Holding Company and its Subsidiaries for the periods ended on such dates, all in accordance with generally accepted accounting principles consistently applied.

(ii) Since May 31, 2006, there has been no Material Adverse Change.

(g) Each of the Borrowers and their Subsidiaries has good, marketable fee or leasehold title (as applicable) or ownership interest to all of the material assets and properties of the Borrowers and their Subsidiaries, free and clear of all Liens, other than Liens permitted by the Loan Documents.

(h) The operations and properties of each Borrower and each of its Subsidiaries comply in all material respects with all applicable Environmental Laws, all past non-compliance with such Environmental Laws has been resolved without material ongoing obligations or costs, and no circumstances exist that could reasonably be likely to (i) form the basis of an Environmental Claim against either Borrower or any of its Subsidiaries or any of their properties that could have a Material Adverse Effect or (ii) cause any such property to be subject to any restrictions on ownership, occupancy, use or transferability under any Environmental Law that could have a Material Adverse Effect.

(i) Set forth on Schedule 4.01(i) hereto is a complete and accurate list of all Subsidiaries of each of the Borrowers as of the date hereof, showing (as to each such Subsidiary) the jurisdiction of its incorporation. All of the outstanding capital stock and other ownership interests (other than directors qualifying shares) in each of the Borrower's Subsidiaries has been validly issued, are fully paid and non-assessable and are owned by such Borrower or one or more of its Subsidiaries free and clear of all Liens and, as of the date hereof, free of any outstanding options, warrants, rights of conversion or purchase or similar rights.

(j) Each of the outstanding securities issued by the Holding Company was duly authorized and validly issued, is fully paid and non-assessable, and is not and will not be subject to any preemptive or similar right or restriction. Each of those outstanding securities was acquired from the issuer in a transaction in compliance with the Securities Act of 1933, as amended, and other applicable laws.

(k) No Borrower is engaged in the business of extending credit for the purpose of purchasing or carrying margin stock (within the meaning of Regulation U issued by the Board of Governors of the Federal Reserve System), and no proceeds of any Advance will be used to purchase or carry any margin stock in violation of Regulation U issued by the Board of Governors of the Federal Reserve System or to extend credit to others for the purpose of purchasing or carrying any margin stock.

(l) No Borrower is an “investment company”, or a company “controlled” by an “investment company”, within the meaning of the Investment Company Act of 1940, as amended.

## ARTICLE V

### COVENANTS OF THE BORROWERS

SECTION 5.01 Affirmative Covenants. So long as any Advance shall remain unpaid or any Lender shall have any Commitment hereunder, each of the Borrowers will:

(a) Reporting Requirements. Provide to the Lenders the following:

(i) promptly after the commencement thereof, notice of all actions and proceedings before any court, governmental agency or arbitrator affecting either Borrower or any of its Subsidiaries of the type described in Section 4.01(e);

(ii) as soon as possible and in any event within five days after the occurrence of each Default continuing on the date of such statement, a statement of the chief financial officer of the Holding Company setting forth details of such Default and the action that the Borrowers have taken and proposes to take with respect thereto and any other event that would be reasonably likely to have or has had a Material Adverse Effect.

(iii) as soon as available and in any event within 60 days after the end of each of the first three quarters of each fiscal year of the Holding Company, the Consolidated balance sheet of the Holding Company and its Subsidiaries as of the end of such quarter and Consolidated statements of income and cash flows of the Holding Company and its Subsidiaries for the period commencing at the end of the previous fiscal year and ending with the end of such quarter, duly certified (subject to year-end audit adjustments) by the chief executive officer, the chief financial officer, the chief accounting officer, the vice-president and treasurer or the vice-president and controller of the Holding Company as having been prepared in accordance with generally accepted accounting principles and certificates of the chief executive officer, the chief financial officer, the chief accounting officer, the vice-president and treasurer or the vice-president and controller of the Holding Company in substantially the form of Exhibit E as to compliance with the terms of this Agreement and setting forth in reasonable detail the calculations necessary to demonstrate compliance with Section 5.03;

(iv) as soon as available and in any event within 90 days after the end of each fiscal year of the Holding Company, (A) a copy of the annual audit report for such year for the Holding Company and its Subsidiaries, containing the Consolidated balance sheet of the Holding Company and its Subsidiaries as of the end of such fiscal year and Consolidated statements of income and cash flows of the Holding Company and its Subsidiaries for such fiscal year, in each case accompanied by an opinion by Ernst & Young LLP or other independent public accountants of recognized standing regularly retained by the Borrowers to audit their books and reasonably acceptable to the Required Lenders, (B) the consolidating balance sheet of the Holding Company and its Subsidiaries as of the end of such fiscal year and consolidating statements of income and cash flows of the Holding Company and its Subsidiaries for such fiscal year and (C) certificates of the chief executive officer, the chief financial officer, the chief accounting officer, the vice-president and treasurer or the vice-president and controller of the Holding Company in substantially the form of Exhibit E as to compliance with the terms of this Agreement and setting forth in reasonable detail the calculations necessary to demonstrate compliance with Section 5.03;

(v) promptly after the sending or filing thereof, copies of all quarterly and annual reports and proxy solicitations that the Holding Company sends to its public securityholders generally, and copies of all reports on Form 8-K and registration statements for the public offering of securities that the Holding Company or any Subsidiary files with the Securities and Exchange Commission or any national securities exchange; and

(vi) such other information respecting the Borrowers or any of their Subsidiaries as any Lender through the Agent may from time to time reasonably request.

Documents required to be delivered pursuant to clauses (iii), (iv), (v) or (vi) of this Section 5.01(a) may be delivered electronically and if so delivered, shall be deemed to have been delivered on the date (i) on which the Holding Company posts such documents, or provides a link thereto on the Holding Company's website on the Internet at the website address <www.scholastic.com>; (ii) on which such documents are posted on the Holding Company's behalf on IntraLinks™ or a substantially similar electronic platform, if any, to which each Lender and the Agent have access (whether a commercial, third-party website or whether sponsored by the Agent); or (iii) on which such documents are filed for public availability on the U.S. Securities and Exchange Commission's Electronic Data Gathering and Retrieval System; provided that the Holding Company shall notify (which may be by facsimile or electronic mail) the Agent of the posting of any such documents and provide to the Agent by electronic mail electronic versions (i.e., soft copies) of such documents. Notwithstanding anything contained herein, in every instance the Holding Company shall be required to provide paper copies of the compliance certificates required by clauses (iii) and (iv) of this Section 5.01 to the Agent.

(b) Visitation Rights. At any reasonable time and from time to time, permit the Agent or any of the Lenders or any agents or representatives thereof, to examine and make copies of and abstracts from the records and books of account of, and visit the properties of, such Borrower and any of its Subsidiaries, and to discuss the affairs, finances and accounts of such Borrower and any of its Subsidiaries with any of their officers or directors and with their independent certified public accountants.

(c) Preservation of Corporate Existence, Etc. Preserve and maintain, and cause each of its Significant Subsidiaries to preserve and maintain, its corporate existence, rights (charter and statutory) and franchises; provided, however, that such Borrower and its Subsidiaries may consummate any merger or consolidation permitted under Section 5.02(c) and provided further that neither such Borrower nor any of its Significant Subsidiaries shall be required to preserve any right or franchise (x) if the Board of Directors of such Borrower or such Significant Subsidiary shall determine that the preservation thereof is no longer desirable in the conduct of the business of such Borrower or such Significant Subsidiary, as the case may be, and that the loss thereof is not disadvantageous in any material respect to such Borrower or the Lenders or (y) in any jurisdiction where the failure to do so would not be reasonably likely to have a Material Adverse Effect.

(d) Compliance with Laws, Etc. Comply, and cause each of its Subsidiaries to comply, in all material respects, with all applicable laws, rules, regulations and orders, such compliance to include, without limitation, compliance with ERISA and Environmental Laws other than to the extent the noncompliance therewith or violation thereof would not be reasonably likely to have a Material Adverse Effect.

(e) Payment of Taxes, Etc. Pay and discharge, and cause each of its Subsidiaries to pay and discharge, before the same shall become delinquent, (i) all taxes, assessments and governmental charges or levies imposed upon it or upon its property unless such failure to pay or discharge would not be reasonably likely to have a significant adverse effect on the business of the Borrowers and the Subsidiaries taken as a whole and (ii) all lawful claims that, if unpaid, might by law become a Lien upon

its property unless such failure to pay or discharge would not be reasonably likely to have a Material Adverse Effect; provided, however, that neither such Borrowers nor any of its Subsidiaries shall be required to pay or discharge any such tax, assessment, charge or claim that is being contested in good faith and by proper proceedings and as to which appropriate reserves are being maintained, unless and until any Lien resulting therefrom attaches to its property and becomes enforceable against its other creditors.

(f) Maintenance of Insurance. Maintain, and cause each of its Subsidiaries to maintain, insurance with responsible and reputable insurance companies or associations in such amounts and covering such risks (excluding publisher's liability insurance) as is usually carried by companies engaged in similar businesses and owning similar properties in the same general areas in which such Borrower or such Subsidiary operates; provided, however, that each Borrower and its Subsidiaries may self-insure to the same extent as other companies engaged in similar businesses and owning similar properties in the same general areas in which such Borrower or such Subsidiary operates and to the extent consistent with prudent business practice.

(g) Keeping of Books. Maintain, and cause each of its Subsidiaries to maintain, a standard system of accounting in accordance with generally accepted accounting principles consistently applied.

(h) Maintenance of Properties, Etc. Maintain and preserve, and cause each of its Subsidiaries to maintain and preserve, all of its properties that are used or useful in the conduct of its business in good working order and condition, ordinary wear and tear excepted, other than to the extent any such failure to maintain and preserve would not be reasonably likely to have a Material Adverse Effect.

SECTION 5.02 Negative Covenants. So long as any Advance shall remain unpaid or any Lender shall have any Commitment hereunder, neither Borrower will:

(a) Liens, Etc. Create or suffer to exist, or permit any of its Subsidiaries to create or suffer to exist, any Lien on or with respect to any of its properties, whether now owned or hereafter acquired, or assign, or permit any of its Subsidiaries to assign, any right to receive income, other than:

(i) Permitted Liens,

(ii) purchase money Liens (including leases treated as security interests) upon or in any real property or equipment acquired or held by any Borrower or any Subsidiary in the ordinary course of business to secure the purchase price of such property or equipment or to secure Debt incurred solely for the purpose of financing the acquisition of such property or equipment, or Liens existing on such property or equipment at the time of its acquisition (other than any such Liens created in contemplation of such acquisition that were not incurred to finance the acquisition of such property) or extensions, renewals or replacements of any of the foregoing for the same or a lesser amount, provided, however, that no such Lien shall extend to or cover any properties of any character other than the real property or equipment being acquired, and no such extension, renewal or replacement shall extend to or cover any properties not theretofore subject to the Lien being extended, renewed or replaced,

(iii) the Liens existing on the Effective Date and described on Schedule 5.02(a) hereto,

(iv) Liens on property of a Person existing at the time such Person is merged into or consolidated with any Borrower or any Subsidiary of such Borrower or becomes a Subsidiary of such Borrower; provided that such Liens were not created in contemplation of such merger, consolidation or acquisition and do not extend to any assets other than those of the Person so merged into or consolidated with such Borrower or such Subsidiary or acquired by such Borrower or such Subsidiary,

(v) other Liens securing Debt in an aggregate principal amount not to exceed \$50,000,000 at any time outstanding;

(vi) 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;

(vii) Liens incurred in respect of rental or security deposits; and

(viii) the replacement, extension or renewal of any Lien permitted by clause (iii) or (iv) above upon or in the same property theretofore subject thereto or the replacement, extension or renewal (without increase in the amount or change in any direct or contingent obligor) of the Debt secured thereby.

(b) Sales, Etc. of Assets. Sell, lease, transfer or otherwise dispose of, or permit any of its Subsidiaries to sell, lease, transfer or otherwise dispose of, any assets, or grant any option or other right to purchase, lease or otherwise acquire any assets, except (i) sales of inventory and equipment in the ordinary course of its business, (ii) in a transaction authorized by subsection (c) of this Section, (iii) sales of assets for fair value in an aggregate amount not to exceed 15% of Consolidated Total Assets as of the last day of the most recently ended fiscal quarter preceding the date of any such sale of assets and (iv) the sale of either (x) the real property located at 557 Broadway, New York, New York, Maumelle, Arkansas and Danbury, Connecticut or (y) the real property comprising the distribution center located in Jefferson City, Missouri, in each case, for fair value in connection with any sale-leaseback transaction.

(c) Mergers, Etc. Merge or consolidate with or into any Person, or permit any of its Subsidiaries to do so, except that (i) any Subsidiary of either Borrower may merge or consolidate with or into any other Subsidiary of such Borrower, (ii) any Subsidiary of either Borrower may merge into such Borrower and (iii) either Borrower may merge with any other Person so long as such Borrower is the surviving corporation, provided, in each case, that no Default shall have occurred and be continuing at the time of such proposed transaction or would result therefrom.

(d) Change in Nature of Business. Make, or permit any of its Subsidiaries to make, any material change in the nature of the business of the Borrowers and their Subsidiaries, taken as a whole, as carried on at the date hereof.

(e) Dividends, Etc. Declare or make any dividend payment or other distribution of assets, properties, cash, rights, obligations or securities on account of any shares of any class of capital stock of the Holding Company, or purchase, redeem or otherwise acquire for value (other than any redemption or repurchase pursuant to the application of any change of control provision contained in any issuance of convertible Debt) (or permit any of its Subsidiaries to do so) any shares of any class of capital stock of the Holding Company or any warrants, rights or options to acquire any such shares, now or hereafter outstanding, or enter into any transaction that has a substantially similar effect as the previously described transactions, except that, so long as no Default shall have occurred and be continuing at the time of any action described below or would result therefrom, the Holding Company may (i) declare and

make any dividend payment or other distribution payable in common stock of the Holding Company, (ii) purchase, redeem or otherwise acquire shares of its common stock or warrants, rights or options to acquire any such shares to the extent that any such purchase, redemption or acquisition is effected solely with the Term Loan Advances and (iii) declare or pay cash dividends to its stockholders and purchase, redeem or otherwise acquire shares of its common stock or warrants, rights or options to acquire any such shares in an amount equal to the sum of (A) the cash proceeds received from the substantially concurrent issue of new shares of its common stock, (B) the aggregate amount of cash received and net tax benefit received from the exercise by employees of the Borrowers and their Subsidiaries of stock options or the purchase of shares of stock under the employee stock purchase plan after May 31, 2006 and (C) the sum of (x) \$75,000,000 and (y) 50% of net income of the Holding Company and its Subsidiaries arising after May 31, 2006 and computed on a cumulative Consolidated basis.

(f) Transactions with Affiliates. Conduct, and cause each of its Subsidiaries to conduct, any transactions otherwise permitted under this Agreement with any of their unconsolidated Affiliates other than on terms that are fair and reasonable and no less favorable to such Borrower or such Subsidiary than it would obtain in a comparable arm's-length transaction with a Person not an Affiliate.

(g) Accounting Changes. Make or permit, or permit any of its Subsidiaries to make or permit, any change in accounting policies or reporting practices, except as required or permitted by generally accepted accounting principles.

SECTION 5.03 Financial Covenants. So long as any Advance shall remain unpaid or any Lender shall have any Commitment hereunder, the Borrowers will:

(a) Consolidated Debt Ratio. Maintain at all times a Consolidated Debt Ratio of not more than 0.60:1.

(b) Consolidated Interest Coverage Ratio. Maintain as at the last day of each of their fiscal quarters a Consolidated Interest Coverage Ratio of not less than 3.50:1.

## ARTICLE VI

### EVENTS OF DEFAULT

SECTION 6.01 Events of Default. If any of the following events ("Events of Default") shall occur and be continuing:

(a) any representation or warranty made in this Agreement or any other Loan Document shall prove to have been false or misleading in any material respect when made (or deemed made); or

(b) any report, statement, certificate, schedule or other document or information furnished (whether prior to, on or after the Effective Date) in connection with this Agreement or any of the other Loan Documents shall prove to have been false or misleading in any material respect when furnished (or deemed furnished); or

(c) any default, whether in whole or in part, shall occur in the payment of the principal of any Advance, or shall occur and continue for more than three Business Days in the payment of any interest on or any other amount respecting the Advances or any of the other obligations of the Borrowers under the Loan Documents; or

(d) any default, whether in whole or in part, shall occur in the due observance or performance of any covenant, term or provision to be performed (i) under Sections 5.01(a)(ii), 5.02(e) or 5.03 of this Agreement or (ii) under Sections 5.01(b) or 5.02 of this Agreement (other than under Section 5.02(e) hereof) and such default described in this clause (ii) shall continue for a period of five Business Days after the earlier of notice thereof to or knowledge thereof by either Borrower; or

(e) any default, whether in whole or in part, shall occur in the due observance or performance of any other covenant, term or provision to be performed under this Agreement and the other Loan Documents by either Borrower or any other party thereto (other than any Lender), which default is not described in any other subsection of this Section, and such default shall continue for a period of ten days after the earlier of notice thereof to or knowledge thereof by either Borrower; provided, however, that if such default is capable of being cured and if the Borrowers shall have commenced to cure such default within such period and shall proceed continuously in good faith and with due diligence to cure such default, then such period instead shall be thirty days; or

(f) (i) any payment default of \$10,000,000 or more shall occur under any instrument or agreement (other than a Loan Document) respecting any Debt of either Borrower or any of their Subsidiaries, unless payment shall be made or action shall be taken within three 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 Documents, with the various financial measurements and covenants set forth in Section 5.03 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 or (ii) any Debt of either Borrower or of any of their Subsidiaries of \$15,000,000 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 any Debt instrument, as in effect on the date hereof, or any substantially identical provision contained in any subsequent issuance of debt) prior to its scheduled maturity; or

(g) either Borrower or any of their Significant Subsidiaries shall (i) fail or be unable to pay its debts generally as they become due, (ii) make a general assignment for the benefit of its creditors, (iii) apply for or consent to the appointment of a receiver, trustee, assignee, custodian, sequestrator, liquidator or similar official for itself or any of its assets and properties, (iv) commence a voluntary case for relief as a debtor under the United States Bankruptcy Code, (v) file with or otherwise submit to any governmental authority any petition, answer or other document seeking (A) reorganization, (B) an arrangement with creditors or (C) to take advantage of any other present or future applicable law respecting bankruptcy, reorganization, insolvency, readjustment of debts, relief of debtors, dissolution or liquidation, (vi) file or otherwise submit any answer or other document admitting or failing to contest the material allegations of a petition or other document filed or otherwise submitted against it in any proceeding under any such applicable law, (vii) be adjudicated a bankrupt or insolvent, or (viii) take any action for the purpose of effecting any of the foregoing; or

(h) any case, proceeding or other action shall be commenced against either Borrower or any of their Significant Subsidiaries for the purpose of effecting, or an order, judgment or decree shall be entered by any court of competent jurisdiction approving (in whole or in part), anything specified in subsection (g) of this Section, or any receiver, trustee, assignee, custodian, sequestrator, liquidator or other official shall be appointed with respect to either Borrower or any of their Significant Subsidiaries, or shall be appointed to take or shall otherwise acquire possession or control of all or a substantial part of the assets and properties of either Borrower or any of their Significant Subsidiaries, and any of the foregoing shall continue unstayed and in effect for any period of sixty days; or

(i) one or more final judgments for the payment of money in excess of an aggregate of \$10,000,000 shall be rendered against either Borrower or any of their Subsidiaries and the same shall remain undischarged for a period of thirty days during which levy and execution shall not be effectively stayed or contested in good faith; or

(j) either Borrower or any ERISA Affiliate shall, or shall be reasonably expected to, incur liability as a result of one or more of the following: (i) the occurrence of any ERISA Event; (ii) the partial or complete withdrawal of either Borrower or any ERISA Affiliate from a Multiemployer Plan; or (iii) the reorganization or termination of a Multiemployer Plan; provided that any such event(s) (individually or in the aggregate with any other such event(s)) would be reasonably likely to have or has had (in the reasonable judgment of the Required Lenders) a Material Adverse Effect; or

(k) the Holding Company shall own less than all of the outstanding securities issued by the Operating Company, or any other Person shall acquire any option, warrant or other right to acquire any of those securities; or

(l) the Robinson Family shall cease to own (in the aggregate) at least fifty-one percent (51.00%) of the issued and outstanding shares of Class A Stock of the Holding Company; or any other Person shall acquire any option, warrant or other right to acquire (from the Robinson Family, the Holding Company or otherwise) any securities issued by the Holding Company that, if exercised, would result in the Robinson Family holding less than 51% of such stock; or

(m) the Board of Directors of the Holding Company shall submit to its shareholders for adoption, or the shareholders of the Holding Company shall adopt, any supplement, modification or amendment to or restatement of the certificate of incorporation or the by-laws of the Holding Company that would in any way directly or indirectly (i) alter the relative voting rights or powers of the classes of the capital stock of the Holding Company, (ii) add any additional classes of capital stock with any voting rights, or (iii) adversely affect the rights, powers, privileges, remedies or interests of the Agent or the Lenders under this Agreement or any other Loan Document, in any such case without the prior written consent of the Required Lenders;

then, and in any such event, the Agent (i) shall at the request, or may with the consent, of the Required Lenders, by notice to the Borrowers, declare the obligation of each Lender to make Advances (other than Letter of Credit Advances by an Issuing Bank or a Lender pursuant to Section 2.16(d)) and of each Issuing Bank to issue Letters of Credit to be terminated, whereupon the same shall forthwith terminate, and (ii) shall at the request, or may with the consent, of the Required Lenders, (A) by notice to the Borrowers, declare the Advances, all interest thereon and all other amounts payable under this Agreement to be forthwith due and payable, whereupon the Advances, all such interest and all such amounts shall become and be forthwith due and payable, without presentment, demand, protest or further notice of any kind, all of which are hereby expressly waived by the Borrowers, (B) by notice to each party required under the terms of any agreement in support of which a Letter of Credit is issued, request that all obligations under such agreement be declared to be due and payable and (C) by notice to each Issuing Bank, direct such Issuing Bank to deliver a Default Termination Notice to the beneficiary of each Letter of Credit issued by it, and each Issuing Bank shall deliver such Default Termination Notices; provided, however, that in the event of an actual or deemed entry of an order for relief with respect to either Borrower under the United States Bankruptcy Code, (1) the obligation of each Lender to make Advances (other than Letter of Credit Advances by an Issuing Bank or a Lender pursuant to Section 2.04(c) or Section 2.16(d)) and of each Issuing Bank to issue Letters of Credit shall automatically be terminated and (2) the Advances, all such interest and all such amounts shall automatically become and be due and payable, without presentment, demand, protest or any notice of any kind, all of which are hereby expressly waived by each Borrower.

SECTION 6.02 Actions in Respect of the Letters of Credit upon Event of Default. If any Event of Default shall have occurred and be continuing, the Agent may, or shall at the request of the Required Lenders, irrespective of whether it is taking any of the actions described in Section 6.01 or otherwise, make demand upon the Borrowers to, and forthwith upon such demand the Borrowers will, pay to the Agent on behalf of the Lenders in same day funds at the Agent's office designated in such demand, for deposit in the Letter of Credit Collateral Account, an amount equal to the aggregate Available Amount of all Letters of Credit then outstanding. If at any time the Agent determines that any funds held in the Letter of Credit Collateral Account are subject to any right or claim of any Person other than the Agent and the Lenders or that the total amount of such funds is less than the aggregate Available Amount of all Letters of Credit, the Borrowers will, forthwith upon demand by the Agent, pay to the Collateral Agent, as additional funds to be deposited and held in the Letter of Credit Collateral Account, an amount equal to the excess of (a) such aggregate Available Amount over (b) the total amount of funds, if any, then held in the Letter of Credit Collateral Account that the Agent determines to be free and clear of any such right and claim. Upon the drawing of any Letter of Credit for which funds are on deposit in the Letter of Credit Collateral Account, such funds shall be applied to reimburse the relevant Issuing Bank or Lenders, as applicable, to the extent permitted by applicable law. If the Borrowers have not delivered the cash collateral as specified above within five Business Days after it was due, at any time and from time to time thereafter, the Lenders in their sole and absolute discretion may (but shall not be obligated to) advance to the Borrowers all or any portion of the required cash collateral, by credit to the Letter of Credit Collateral Account or otherwise; and amounts advanced by the Lenders pursuant to this option and outstanding from time to time shall be due and payable, together with interest and additional interest thereon at the rates provided in Section 2.07 of this Agreement, on demand, and shall otherwise constitute "Letter of Credit Advances" for all purposes under this Agreement and the other Loan Documents.

## ARTICLE VII

### THE AGENT

SECTION 7.01 Authorization and Action. Each Lender hereby appoints and authorizes the Agent to take such action as agent on its behalf and to exercise such powers and discretion under this Agreement and the other Loan Documents as are delegated to the Agent by the terms hereof, together with such powers and discretion as are reasonably incidental thereto. As to any matters not expressly provided for by the Loan Documents (including, without limitation, enforcement or collection of the Advances), the Agent shall not be required to exercise any discretion or take any action, but shall be required to act or to refrain from acting (and shall be fully protected in so acting or refraining from acting) upon the instructions of the Required Lenders, and such instructions shall be binding upon all Lenders and all holders of Notes; provided, however, that the Agent shall not be required to take any action that exposes the Agent to personal liability or that is contrary to this Agreement or applicable law. The Agent agrees to give to each Lender prompt notice of each notice given to it by any Borrower pursuant to the terms of this Agreement.

SECTION 7.02 Agent's Reliance, Etc. Neither the Agent nor any of its directors, officers, agents or employees shall be liable for any action taken or omitted to be taken by it or them under or in connection with Loan Documents, except for its or their own gross negligence or willful misconduct. Without limitation of the generality of the foregoing, the Agent: (i) may treat the Lender that made any Advance as the holder of the Debt resulting therefrom until the Agent receives and accepts an Assumption Agreement entered into by an Assuming Lender as provided in Section 2.18 or an Assignment and Acceptance entered into by such Lender, as assignor, and an Eligible Assignee, as assignee, as provided in Section 8.07; (ii) may consult with legal counsel (including counsel for the Borrowers), independent public accountants and other experts selected by it and shall not be liable for any

action taken or omitted to be taken in good faith by it in accordance with the advice of such counsel, accountants or experts; (iii) makes no warranty or representation to any Lender and shall not be responsible to any Lender for any statements, warranties or representations (whether written or oral) made in or in connection with the Loan Documents; (iv) shall not have any duty (fiduciary or otherwise) to ascertain or to inquire as to the performance or observance of any of the terms, covenants or conditions of the Loan Documents on the part of any Borrower or to inspect the property (including the books and records) of the Borrowers; (v) shall not be responsible to any Lender for the due execution, legality, validity, enforceability, genuineness, sufficiency or value of, or the perfection or priority of any lien or security interest created or purported to be created under or in connection with, the Loan Documents or any other instrument or document furnished pursuant hereto; (vi) shall incur no liability under or in respect of any Loan Document by acting upon any notice, consent, certificate or other instrument or writing (which may be by telecopier, telegram) believed by it to be genuine and signed or sent by the proper party or parties; (vii) shall be deemed not to have knowledge of any Default unless and until written notice (including facsimile notice) thereof is given to the Agent by either Borrower or a Lender; and (viii) shall not, except as expressly set forth herein, have any duty to disclose, and shall not be liable for the failure to disclose, any information relating to the Borrowers or any of their Subsidiaries that is communicated to or obtained by the bank serving as Agent or any of its Affiliates in any capacity.

**SECTION 7.03 JPMCB and Affiliates.** With respect to its Commitment, the Advances made by it and any Note issued to it, JPMCB shall have the same rights and powers under the Loan Documents as any other Lender and may exercise the same as though it were not the Agent; and the term “Lender” or “Lenders” shall, unless otherwise expressly indicated, include JPMCB in its individual capacity. JPMCB and its Affiliates may accept deposits from, lend money to, act as trustee under indentures of, accept investment banking engagements from and generally engage in any kind of business with, any Borrower, any of its Subsidiaries and any Person who may do business with or own securities of any such Borrower or any such Subsidiary, all as if JPMCB were not the Agent and without any duty to account therefor to the Lenders.

**SECTION 7.04 Lender Credit Decision.** Each Lender acknowledges that it has, independently and without reliance upon the Agent or any other Lender and based on the financial statements referred to in Section 4.01 and such other documents and information as it has deemed appropriate, made its own credit analysis and decision to enter into this Agreement. Each Lender also acknowledges that it will, independently and without reliance upon the Agent or any other Lender and based on such documents and information as it shall deem appropriate at the time, continue to make its own credit decisions in taking or not taking action under this Agreement.

**SECTION 7.05 Indemnification.** (a) Each Lender agrees to indemnify the Agent (to the extent not reimbursed by the Borrowers), from and against such Lender’s ratable share (determined as provided below) of any and all liabilities, obligations, losses, damages, penalties, actions, judgments, suits, costs, expenses or disbursements of any kind or nature whatsoever that may be imposed on, incurred by, or asserted against the Agent in any way relating to or arising out of the Loan Documents or any action taken or omitted by the Agent under the Loan Documents (collectively, the “Indemnified Costs”), provided that no Lender shall be liable for any portion of the Indemnified Costs resulting from the Agent’s gross negligence or willful misconduct. Without limitation of the foregoing, each Lender agrees to reimburse the Agent promptly upon demand for its ratable share of any out-of-pocket expenses (including reasonable counsel fees) incurred by the Agent in connection with the preparation, execution, delivery, administration, modification, amendment or enforcement (whether through negotiations, legal proceedings or otherwise) of, or legal advice in respect of rights or responsibilities under, this Agreement, to the extent that the Agent is not reimbursed for such expenses by the Borrowers. In the case of any investigation, litigation or proceeding giving rise to any Indemnified Costs, this Section 7.05 applies

whether any such investigation, litigation or proceeding is brought by the Agent, any Lender or a third party.

(b) Each Lender severally agrees to indemnify each Issuing Bank (to the extent not promptly reimbursed by the Borrowers) from and against such Lender's ratable share (determined as provided below) of any and all liabilities, obligations, losses, damages, penalties, actions, judgments, suits, costs, expenses or disbursements of any kind or nature whatsoever that may be imposed on, incurred by, or asserted against such Issuing Bank in any way relating to or arising out of the Loan Documents or any action taken or omitted by such Issuing Bank under the Loan Documents; provided, that no Lender shall be liable for any portion of such liabilities, obligations, losses, damages, penalties, actions, judgments, suits, costs, expenses or disbursements resulting from such Issuing Bank's gross negligence or willful misconduct. Without limitation of the foregoing, each Lender agrees to reimburse such Issuing Bank promptly upon demand for its ratable share of any costs and expenses (including, without limitation, fees and expenses of counsel) payable by the Borrowers under Section 8.04, to the extent that such Issuing Bank is not promptly reimbursed for such costs and expenses by the Borrowers.

(c) For purposes of this Section 7.05, the Lenders' respective ratable shares of any amount shall be determined, at any time, according to the sum of (i) the aggregate principal amount of the Revolving Credit Advances, Term Loan Advances, Swingline Advances and Letter of Credit Advances outstanding at such time and owing to the respective Lender, (ii) their respective Pro Rata Shares of the aggregate Available Amount of all Letters of Credit outstanding at such time and (iii) their respective Unused Revolving Credit Commitments at such time; provided that the aggregate principal amount of Letter of Credit Advances owing to any Issuing Bank shall be considered to be owed to the Lenders ratably in accordance with their respective Revolving Credit Commitments. The failure of any Lender to reimburse any Agent or any Issuing Bank, as the case may be, promptly upon demand for its ratable share of any amount required to be paid by the Lenders to such Agent or such Issuing Bank, as the case may be, as provided herein shall not relieve any other Lender of its obligation hereunder to reimburse such Agent or such Issuing Bank, as the case may be, for its ratable share of such amount, but no Lender shall be responsible for the failure of any other Lender to reimburse such Agent or such Issuing Bank, as the case may be, for such other Lender's ratable share of such amount. Without prejudice to the survival of any other agreement of any Lender hereunder, the agreement and obligations of each Lender contained in this Section 7.05 shall survive the payment in full of principal, interest and all other amounts payable hereunder and under the other Loan Documents.

SECTION 7.06 Successor Agent. The Agent may resign at any time by giving written notice thereof to the Lenders and the Borrowers. Upon any such resignation, the Required Lenders shall have the right to appoint a successor Agent. If no successor Agent shall have been so appointed by the Required Lenders, and shall have accepted such appointment, within 30 days after the retiring Agent's giving of notice of resignation, then the retiring Agent may, on behalf of the Lenders, appoint a successor Agent, which shall be a commercial bank organized under the laws of the United States of America or of any State thereof and having a combined capital and surplus of at least \$500,000,000. Upon the acceptance of any appointment as Agent hereunder by a successor Agent, such successor Agent shall thereupon succeed to and become vested with all the rights, powers, discretion, privileges and duties of the retiring Agent, and the retiring Agent shall be discharged from its duties and obligations under this Agreement. After any retiring Agent's resignation hereunder as Agent, the provisions of this Article VII shall inure to its benefit as to any actions taken or omitted to be taken by it while it was Agent under this Agreement.

SECTION 7.07 Other Agents. Each Lender hereby acknowledges that neither syndication agent nor any other Lender designated as any "Agent" on the signature pages hereof has any responsibility or liability hereunder other than in its capacity as a Lender.

## MISCELLANEOUS

SECTION 8.01 Amendments, Etc. No amendment or waiver of any provision of this Agreement, nor consent to any departure by any Borrower therefrom, shall in any event be effective unless the same shall be in writing and signed by the Required Lenders, and then such waiver or consent shall be effective only in the specific instance and for the specific purpose for which given; provided, however, that no amendment, waiver or consent shall, unless in writing and signed by all the Lenders adversely affected thereby, do any of the following: (a) waive any of the conditions specified in Section 3.01, (b) increase the Commitments of the Lenders or subject the Lenders to any additional obligations, (c) reduce the principal of, or interest on, any Advance or any fees or other amounts payable hereunder, (d) postpone any date fixed for any payment of principal of, or interest on, any Advance or any fees or other amounts payable hereunder, (e) change the percentage of the Commitments, the aggregate unpaid principal amount of any Advance or the percentage or number of Lenders, that shall be required for the Lenders or any of them to take any action hereunder or (f) amend this Section 8.01; and provided further that (x) no amendment, waiver or consent shall, unless in writing and signed by the Agent in addition to the Lenders required above to take such action, affect the rights or duties of the Agent under this Agreement or any Note and (y) no amendment, waiver or consent shall, unless in writing and signed by the Issuing Banks and/or the Swingline Lender in addition to the Lenders required above to take such action, adversely affect the rights or obligations of the Issuing Banks and/or the Swingline Lender, as applicable, in their capacities as such under this Agreement.

SECTION 8.02 Notices, Etc. All notices and other communications provided for hereunder shall be in writing (including telecopier or telegraphic communication) and mailed, telecopied, telegraphed or delivered, if to the Holding Company or to the Operating Company, at its address at 557 Broadway, New York, New York 10012, Attention: Gil Dickoff, Vice President and Treasurer, and (in the case of notices of Default) Devereux Chatillon, Senior Vice President and General Counsel; if to any Lender or Issuing Bank, at its address specified in its administrative questionnaire delivered to the Agent in connection with the Facilities; if to the Swingline Lender, at its address at JPMorgan Chase Bank, National Association, 10 South Dearborn, 7th Floor, Chicago, IL 60603-0010, Attn: JPMorgan Loan Services; and if to the Agent, at its address at JPMorgan Chase Bank, National Association, 10 South Dearborn, 7th Floor, Chicago, IL 60603-0010, Attn: JPMorgan Loan Services, Attention: Loan and Agency Services Group; or, as to any Borrower or the Agent, at such other address as shall be designated by such party in a written notice to the other parties and, as to each other party, at such other address as shall be designated by such party in a written notice to the Borrowers and the Agent. All such notices and communications shall, when mailed, telecopied or telegraphed, be effective when deposited in the mails, telecopied or delivered to the telegraph company, respectively, except that notices and communications to the Agent pursuant to Article II, III or VII shall not be effective until received by the Agent. Delivery by telecopier of an executed counterpart of any amendment or waiver of any provision of this Agreement or any Notes or of any Exhibit hereto to be executed and delivered hereunder shall be effective as delivery of a manually executed counterpart thereof.

SECTION 8.03 No Waiver; Remedies. No failure on the part of any Lender or the Agent to exercise, and no delay in exercising, any right hereunder or under any Note shall operate as a waiver thereof; nor shall any single or partial exercise of any such right preclude any other or further exercise thereof or the exercise of any other right. The remedies herein provided are cumulative and not exclusive of any remedies provided by law.

SECTION 8.04 Costs and Expenses. (a) The Borrowers jointly and severally agree to pay on demand all reasonable costs and expenses of the Agent in connection with the preparation,

execution, delivery, administration, modification and amendment of the Loan Documents to be delivered hereunder, including, without limitation, the reasonable fees and expenses of counsel for the Agent with respect thereto and with respect to advising the Agent as to its rights and responsibilities under the Loan Documents. The Borrowers further jointly and severally agree to pay on demand all reasonable costs and expenses of the Agent and the Lenders, if any (including, without limitation, reasonable counsel fees and expenses), in connection with the enforcement (whether through negotiations, legal proceedings or otherwise) of this Agreement, the Notes and the other Loan Documents to be delivered hereunder, including, without limitation, reasonable fees and expenses of counsel for the Agent and each Lender in connection with the enforcement of rights under this Section 8.04(a).

(b) The Borrowers jointly and severally agree to indemnify and hold harmless the Agent and each Lender and each of their Affiliates and their officers, directors, employees, agents and advisors (each, an “Indemnified Party”) from and against any and all claims, damages, losses, liabilities and expenses (including, without limitation, reasonable fees and expenses of counsel) incurred by or asserted or awarded against any Indemnified Party, in each case arising out of or in connection with or by reason of (including, without limitation, in connection with any investigation, litigation or proceeding or preparation of a defense in connection therewith) (i) the Loan Documents, any of the transactions contemplated herein or the actual or proposed use of the proceeds of the Advances or (ii) the actual or alleged presence of Environmental Substances on any property of any Borrower or any of its Subsidiaries or any Environmental Claim relating in any way to any Borrower or any of its Subsidiaries, except to the extent such claim, damage, loss, liability or expense is found in a final, non-appealable judgment by a court of competent jurisdiction to have resulted from such Indemnified Party’s gross negligence or willful misconduct. In the case of an investigation, litigation or other proceeding to which the indemnity in this Section 8.04(b) applies, such indemnity shall be effective whether or not such investigation, litigation or proceeding is brought by a Borrower, its directors, shareholders or creditors or an Indemnified Party or any other Person or any Indemnified Party is otherwise a party thereto and whether or not the transactions contemplated hereby are consummated. The Borrowers also agree that no Indemnified Party shall have any liability (whether direct or indirect, in contract, tort or otherwise) to the Borrowers or any of their shareholders or creditors for or in connection with the transactions contemplated hereby, except to the extent such liability is found in a final nonappealable judgment by a court of competent jurisdiction to have resulted from such Indemnified Party’s gross negligence or willful misconduct.

(c) If any payment of principal of, or Conversion of, any Eurodollar Rate Advance or LIBO Rate Advance is made by any Borrower to or for the account of a Lender other than on the last day of the Interest Period for such Advance, as a result of a payment or Conversion pursuant to Section 2.08(d) or (e), 2.10 or 2.12, acceleration of the maturity of the Advances pursuant to Section 6.01 or for any other reason, or by an Eligible Assignee to a Lender other than on the last day of the Interest Period for such Advance upon an assignment of rights and obligations under this Agreement pursuant to Section 8.07 as a result of a demand by the Borrowers pursuant to Section 8.07(a), such Borrower shall, upon demand by such Lender (with a copy of such demand to the Agent), pay to the Agent for the account of such Lender any amounts required to compensate such Lender for any additional losses, costs or expenses that it may reasonably incur as a result of such payment or Conversion, including, without limitation, any loss (including loss of anticipated profits), cost or expense incurred by reason of the liquidation or reemployment of deposits or other funds acquired by any Lender to fund or maintain such Advance.

(d) Without prejudice to the survival of any other agreement of the Borrowers hereunder, the agreements and obligations of the Borrowers contained in Sections 2.11, 2.14 and 8.04 shall survive the payment in full of principal, interest and all other amounts payable hereunder and under the other Loan Documents.

SECTION 8.05 Right of Set-off. Upon (i) the occurrence and during the continuance of any Event of Default and (ii) the making of the request or the granting of the consent specified by Section 6.01 to authorize the Agent to declare the Advances due and payable pursuant to the provisions of Section 6.01, each Lender and each of its Affiliates is hereby authorized at any time and from time to time, to the fullest extent permitted by law, to set off and apply any and all deposits (general or special, time or demand, provisional or final) at any time held and other indebtedness at any time owing by such Lender or such Affiliate to or for the credit or the account of any Borrower against any and all of the obligations of such Borrower now or hereafter existing under this Agreement and any Note held by such Lender, whether or not such Lender shall have made any demand under this Agreement or such Note and although such obligations may be unmaturred. Each Lender agrees promptly to notify such Borrower after any such set-off and application, provided that the failure to give such notice shall not affect the validity of such set-off and application. The rights of each Lender and its Affiliates under this Section are in addition to other rights and remedies (including, without limitation, other rights of set-off) that such Lender and its Affiliates may have.

SECTION 8.06 Binding Effect. This Agreement shall become effective (other than Sections 2.01, 2.03 and 2.16, which shall only become effective upon satisfaction of the conditions precedent set forth in Section 3.01) when it shall have been executed by the Borrowers and the Agent and when the Agent shall have been notified by each Initial Lender that such Initial Lender has executed it and thereafter shall be binding upon and inure to the benefit of the Borrowers, the Agent and each Lender and their respective successors and assigns, except that no Borrower shall have the right to assign its rights hereunder or any interest herein without the prior written consent of the Lenders.

SECTION 8.07 Assignments and Participations. (a) Each Lender may and, if demanded by the Borrowers (following a demand by such Lender pursuant to Section 2.11 or 2.14) upon at least five Business Days' notice to such Lender and the Agent, will assign to one or more Persons all or a portion of its rights and obligations under this Agreement (including, without limitation, all or a portion of its Commitment, its Advances owing to it and any Notes held by it); provided, however, that (i) each such assignment shall be of a constant, and not a varying, percentage of all rights and obligations (including the Revolving Credit Facility and the Term Loan Facility and Term Loans) under this Agreement (other than any right to make Competitive Bid Advances, Competitive Bid Advances owing to it and any Competitive Bid Notes), (ii) except in the case of an assignment to a Person that, immediately prior to such assignment, was a Lender or an assignment of all of a Lender's rights and obligations under this Agreement, the amount of the Commitment of the assigning Lender being assigned pursuant to each such assignment (determined as of the date of the Assignment and Acceptance with respect to such assignment) shall in no event be less than \$5,000,000, (iii) each such assignment shall be to an Eligible Assignee, (iv) each such assignment made as a result of a demand by the Borrowers pursuant to this Section 8.07(a) shall be arranged by the Borrowers after consultation with the Agent and shall be either an assignment of all of the rights and obligations of the assigning Lender under this Agreement or an assignment of a portion of such rights and obligations made concurrently with another such assignment or other such assignments that together cover all of the rights and obligations of the assigning Lender under this Agreement, (v) no Lender shall be obligated to make any such assignment as a result of a demand by the Borrowers pursuant to this Section 8.07(a) unless and until such Lender shall have received one or more payments from either the Borrowers or one or more Eligible Assignees in an aggregate amount at least equal to the aggregate outstanding principal amount of the Advances owing to such Lender, together with accrued interest thereon to the date of payment of such principal amount and all other amounts payable to such Lender under this Agreement, (vi) the parties to each such assignment shall execute and deliver to the Agent, for its acceptance and recording in the Register, an Assignment and Acceptance, together with any Revolving Credit Note or Term Loan Note subject to such assignment and a processing and recordation fee of \$3,500, and (vii) any such assignment shall be subject to the prior written consent (such consent not to be unreasonably withheld) of: (a) the Borrowers, provided that no consent of the

Borrowers shall be required for an assignment to a Lender, an Affiliate of a Lender, an Approved Fund or, if an Event of Default has occurred and is continuing, any other assignee, (b) the Agent and (c) the Issuing Banks.

(b) [Intentionally Omitted].

(c) Upon such execution, delivery, acceptance and recording, from and after the effective date specified in each Assignment and Acceptance, (x) the assignee thereunder shall be a party hereto and, to the extent that rights and obligations hereunder have been assigned to it pursuant to such Assignment and Acceptance, have the rights and obligations of a Lender or an Issuing Bank, as the case may be, hereunder and (y) the Lender or Issuing Bank assignor thereunder shall, to the extent that rights and obligations hereunder have been assigned by it pursuant to such Assignment and Acceptance, relinquish its rights and be released from its obligations under this Agreement (and, in the case of an Assignment and Acceptance covering all or the remaining portion of an assigning Lender's rights and obligations under this Agreement, such Lender shall cease to be a party hereto).

(d) By executing and delivering an Assignment and Acceptance, the Lender assignor thereunder and the assignee thereunder confirm to and agree with each other and the other parties hereto as follows: (i) other than as provided in such Assignment and Acceptance, such assigning Lender makes no representation or warranty and assumes no responsibility with respect to any statements, warranties or representations made in or in connection with the Loan Documents or the execution, legality, validity, enforceability, genuineness, sufficiency or value of, or the perfection or priority of any lien or security interest created or purported to be created under or in connection with, the Loan Documents or any other instrument or document furnished pursuant hereto; (ii) such assigning Lender makes no representation or warranty and assumes no responsibility with respect to the financial condition of the Borrowers or the performance or observance by any Borrower of any of its obligations under the Loan Documents or any other instrument or document furnished pursuant hereto; (iii) such assignee confirms that it has received a copy of this Agreement, together with copies of the financial statements referred to in Section 4.01 and such other documents and information as it has deemed appropriate to make its own credit analysis and decision to enter into such Assignment and Acceptance; (iv) such assignee will, independently and without reliance upon the Agent, such assigning Lender or any other Lender and based on such documents and information as it shall deem appropriate at the time, continue to make its own credit decisions in taking or not taking action under this Agreement; (v) such assignee confirms that it is an Eligible Assignee; (vi) such assignee appoints and authorizes the Agent to take such action as agent on its behalf and to exercise such powers and discretion under this Agreement as are delegated to the Agent by the terms hereof, together with such powers and discretion as are reasonably incidental thereto; and (vii) such assignee agrees that it will perform in accordance with their terms all of the obligations that by the terms of this Agreement are required to be performed by it as a Lender.

(e) Upon its receipt of an Assignment and Acceptance executed by an assigning Lender and an assignee representing that it is an Eligible Assignee, together with any Note or Notes subject to such assignment, the Agent shall, if such Assignment and Acceptance has been completed and is in substantially the form of Exhibit C hereto, (i) accept such Assignment and Acceptance, (ii) record the information contained therein in the Register and (iii) give prompt notice thereof to the Borrowers.

(f) The Agent shall maintain at its address referred to in Section 8.02 a copy of each Assumption Agreement and each Assignment and Acceptance delivered to and accepted by it and a register for the recordation of the names and addresses of the Lenders and the Commitment of, and principal amount of the Advances owing to, each Lender from time to time (the "Register"). The entries in the Register shall be conclusive and binding for all purposes, absent manifest error, and the Borrowers, the Agent and the Lenders may treat each Person whose name is recorded in the Register as a Lender

hereunder for all purposes of this Agreement. The Register shall be available for inspection by the Borrowers or any Lender at any reasonable time and from time to time upon reasonable prior notice.

(g) Each Lender may sell participations to one or more banks or other entities (other than a Borrower or any of its Affiliates) in or to all or a portion of its rights and obligations under this Agreement (including, without limitation, all or a portion of its Commitment, the Advances owing to it and any Note or Notes held by it); provided, however, that (i) such Lender's obligations under this Agreement (including, without limitation, its Commitment to the Borrowers hereunder) shall remain unchanged and such Lender agrees that it will not raise (and hereby expressly waives) any defense relating to any such participation, (ii) such Lender shall remain solely responsible to the other parties hereto for the performance of such obligations, (iii) such Lender shall remain the holder of any such Note for all purposes of this Agreement, (iv) the Borrowers, the Agent and the other Lenders shall continue to deal solely and directly with such Lender in connection with such Lender's rights and obligations under this Agreement, (v) no participant under any such participation shall have any right to approve any amendment or waiver of any provision of this Agreement or any Note, or any consent to any departure by any Borrower therefrom, except to the extent that such amendment, waiver or consent would reduce the principal of, or interest on, any Advances or any fees or other amounts payable hereunder, in each case to the extent subject to such participation, or postpone any date fixed for any payment of principal of, or interest on, any Advances or any fees or other amounts payable hereunder, in each case to the extent subject to such participation and (vi) such Lender shall not permit its direct or indirect participants to further assign or participate its interest.

(h) Any Lender may, in connection with any assignment or participation or proposed assignment or participation pursuant to this Section 8.07, disclose to the assignee or participant or proposed assignee or participant, any information relating to the Borrowers furnished to such Lender by or on behalf of the Borrowers; provided that, prior to any such disclosure, the assignee or participant or proposed assignee or participant shall agree to preserve the confidentiality of any Confidential Information relating to the Borrowers received by it from such Lender.

(i) Notwithstanding any other provision set forth in this Agreement, any Lender may at any time create a security interest in all or any portion of its rights under this Agreement (including, without limitation, the Advances owing to it and any Note or Notes held by it) in favor of any Federal Reserve Bank in accordance with Regulation A of the Board of Governors of the Federal Reserve System.

SECTION 8.08 Confidentiality. Neither the Agent nor any Lender shall disclose any Confidential Information to any other Person without the prior written consent of the Borrowers, other than (a) to the Agent's or such Lender's Affiliates and their officers, directors, employees, agents and advisors and, as contemplated by Section 8.07(h), to actual or prospective assignees and participants, and then only on a confidential basis, (b) as required by any law, rule or regulation or judicial process, (c) as requested or required by any state, federal or foreign authority or examiner regulating banks or banking and (d) in connection with the exercise of any remedies hereunder or any suit, action or proceeding relating to this Agreement or the enforcement of rights hereunder.

SECTION 8.09 No Liability of the Issuing Banks. The Borrower assumes all risks of the acts or omissions of any beneficiary or transferee of any Letter of Credit with respect to its use of such Letter of Credit. Neither any Issuing Bank nor any of its officers or directors shall be liable or responsible for: (a) the use that may be made of any Letter of Credit or any acts or omissions of any beneficiary or transferee in connection therewith; (b) the validity, sufficiency or genuineness of documents, or of any endorsement thereon, even if such documents should prove to be in any or all respects invalid, insufficient, fraudulent or forged; (c) payment by such Issuing Bank against presentation of documents that do not comply with the terms of a Letter of Credit, including failure of any documents to bear any

reference or adequate reference to the Letter of Credit, unless such documents are substantially different from the applicable form specified by such Letter of Credit; or (d) any other circumstances whatsoever in making or failing to make payment under any Letter of Credit, except that the applicable Borrower shall have a claim against such Issuing Bank, and such Issuing Bank shall be liable to such Borrower, to the extent of any direct, but not consequential, damages suffered by such Borrower that such Borrower proves were caused by (i) such Issuing Bank's willful misconduct or gross negligence in determining whether documents presented under any Letter of Credit comply with the terms of the Letter of Credit or (ii) such Issuing Bank's willful failure to make lawful payment under a Letter of Credit after the presentation to it of a draft and certificates strictly complying with the terms and conditions of the Letter of Credit. In furtherance and not in limitation of the foregoing, such Issuing Bank may accept documents that appear on their face to be in order, without responsibility for further investigation, regardless of any notice or information to the contrary.

SECTION 8.10 Governing Law. This Agreement and any Notes shall be governed by, and construed in accordance with, the laws of the State of New York.

SECTION 8.11 Execution in Counterparts. This Agreement 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 Agreement by telecopier shall be effective as delivery of a manually executed counterpart of this Agreement.

SECTION 8.12 Waiver of Jury Trial. Each of the Borrowers, the Agent and the Lenders hereby irrevocably waives all right to trial by jury in any action, proceeding or counterclaim (whether based on contract, tort or otherwise) arising out of or relating to this Agreement or any Notes or the actions of the Agent or any Lender in the negotiation, administration, performance or enforcement thereof.

SECTION 8.13 USA Patriot Act. Each Lender that is subject to the requirements of the USA Patriot Act (Title III of Pub. L. 107-56 (signed into law October 26, 2001)) (the "Act") hereby notifies the Borrowers that pursuant to the requirements of the Act, it is required to obtain, verify and record information that identifies each Borrower, which information includes the name and address of each Borrower and other information that will allow such Lender to identify each Borrower in accordance with the Act.

[Signature Pages Follow]

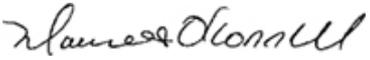
IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be duly executed by their respective authorized officers as of the day and year first above written.

SCHOLASTIC CORPORATION

By: 

Name: Maureen O'Connell  
Title: Executive Vice President,  
Chief Administrative Officer and Chief  
Financial Officer

SCHOLASTIC INC.

By: 

Name: Maureen O'Connell  
Title: Executive Vice President,  
Chief Administrative Officer and Chief  
Financial Officer

Signature Page to Credit Agreement  
Scholastic Corporation and Scholastic Inc.

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JPMORGAN CHASE BANK,  
NATIONAL ASSOCIATION,  
individually as a Lender, as the Swingline Lender,  
as an Issuing Bank and as Administrative Agent

By: 

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Name: Deborah Hinkles  
Title: Vice President

Signature Page to Credit Agreement  
Scholastic Corporation and Scholastic Inc.

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BANK OF AMERICA,  
NATIONAL ASSOCIATION,  
individually as a Lender, as an Issuing Bank and as a Syndication  
Agent

By: 

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Name: Richard Williams  
Title: Senior Vice President

Signature Page to Credit Agreement  
Scholastic Corporation and Scholastic Inc.

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WACHOVIA BANK,  
NATIONAL ASSOCIATION,  
individually as a Lender and as a Syndication Agent



By:

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Name: Tyrone J. Williams  
Title: Senior Vice President

Signature Page to Credit Agreement  
Scholastic Corporation and Scholastic Inc.

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SUNTRUST BANK,  
individually as a Lender and as a Documentation Agent

By: 

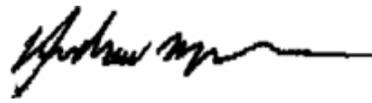
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Name: Kip Hurd  
Title: Director

Signature Page to Credit Agreement  
Scholastic Corporation and Scholastic Inc.

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THE ROYAL BANK OF SCOTLAND plc,  
individually as a Lender and as a Documentation Agent

By: 

Name: Andrew Wynn  
Title: Managing Director, Head of TMT

Signature Page to Credit Agreement  
Scholastic Corporation and Scholastic Inc.

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DEUTSCHE BANK AG NEW YORK BRANCH,  
as a Lender



By: \_\_\_\_\_

Name: Yvonne Tilden  
Title: Vice President



By: \_\_\_\_\_

Name: Andreas Neumeier  
Title: Director

Signature Page to Credit Agreement  
Scholastic Corporation and Scholastic Inc.

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HSBC BANK USA, NATIONAL ASSOCIATION,  
as a Lender

By: 

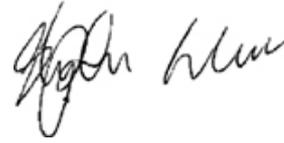
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Name: Richard van der Meer  
Title: Vice President

Signature Page to Credit Agreement  
Scholastic Corporation and Scholastic Inc.

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HSBC BANK plc,  
as a Lender



By:

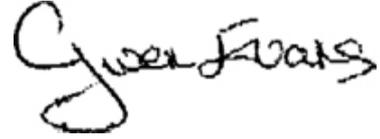
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Name: STEPHEN HURST  
Title: CORPORATE BANKING MANAGER

Signature Page to Credit Agreement  
Scholastic Corporation and Scholastic Inc.

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THE GOVERNOR AND COMPANY OF THE  
BANK OF IRELAND,  
as a Lender



By: \_\_\_\_\_

Name: Gwen Evans  
Title: Authorised Signatory



By: \_\_\_\_\_

Name: Paul Kelly  
Title: Authorised Signatory

Signature Page to Credit Agreement  
Scholastic Corporation and Scholastic Inc.

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THE BANK OF NEW YORK,  
as a Lender

By: 

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Name: Thomas J. McCormack  
Title: Vice President

Signature Page to Credit Agreement  
Scholastic Corporation and Scholastic Inc.

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CITIBANK, N.A.,  
as a Lender

By: 

Name: JaHan Wang  
Title: Vice President

Signature Page to Credit Agreement  
Scholastic Corporation and Scholastic Inc.

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TD BANKNORTH, N.A.,  
as a Lender

By: 

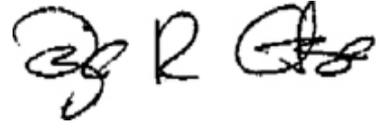
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Name: JEFF (ILLEGIBLE)  
Title: SENIOR VICE PRESIDENT

Signature Page to Credit Agreement  
Scholastic Corporation and Scholastic Inc.

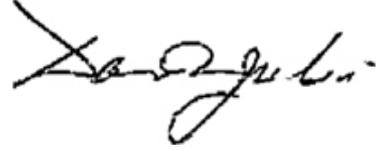
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UBS LOAN FINANCE LLC,  
as a Lender



By: \_\_\_\_\_

Name: Irja R. Otsa  
Title: Associate Director



By: \_\_\_\_\_

Name: David B. Julie  
Title: Associate Director

Signature Page to Credit Agreement  
Scholastic Corporation and Scholastic Inc.

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COMMITMENTS AND APPLICABLE LENDING OFFICES

Name of Initial Lender	Revolving Credit Commitment	Term Loan Commitment
JPMorgan Chase Bank, National Association	\$ 45,500,000	\$ 24,500,000
Bank of America, N.A.	\$ 45,500,000	\$ 24,500,000
SunTrust Bank	\$ 35,000,000	\$ 22,500,000
The Royal Bank of Scotland plc	\$ 35,000,000	\$ 22,500,000
Wachovia Bank, National Association	\$ 35,000,000	\$ 22,500,000
Deutsche Bank AG New York Branch	\$ 23,000,000	\$ 14,500,000
HSBC BANK USA, National Association	\$ 15,000,000	\$ 10,000,000
The Governor and Company of the Bank of Ireland	\$ 23,000,000	\$ 14,500,000
The Bank of New York	\$ 15,000,000	\$ 10,000,000
Citibank, N.A.	\$ 15,000,000	\$ 10,000,000
TDBanknorth, N.A.	\$ 15,000,000	\$ 10,000,000
UBS Loan Finance LLC	\$ 15,000,000	\$ 10,000,000
HSBC Bank plc	\$ 8,000,000	\$ 4,500,000
<b>Total</b>	<b>\$ 325,000,000</b>	<b>\$ 200,000,000</b>

Dated: \_\_\_\_\_, 200\_

FOR VALUE RECEIVED, the undersigned, [NAME OF BORROWER], a \_\_\_\_\_ corporation (the "Borrower"), HEREBY PROMISES TO PAY to the order of \_\_\_\_\_ (the "Lender") for the account of its Applicable Lending Office on the Termination Date (each as defined in the Credit Agreement referred to below) the aggregate principal amount of the Revolving Credit Advances made by the Lender to the Borrower pursuant to the Credit Agreement dated as of June 1, 2007 among the Borrower, [Scholastic Corporation][Scholastic Inc.], the Lender and certain other lenders parties thereto, JPMorgan Chase Bank, National Association, as Agent for the Lender and such other lenders (as amended or modified from time to time, the "Credit Agreement"; the terms defined therein being used herein as therein defined) outstanding on the Termination Date.

The Borrower promises to pay interest on the unpaid principal amount of each Revolving Credit Advance from the date of such Revolving Credit Advance until such principal amount is paid in full, at such interest rates, and payable at such times, as are specified in the Credit Agreement.

Both principal and interest are payable in lawful money of the United States of America to the Agent in same day funds. Each Revolving Credit Advance owing to the Lender by the Borrower pursuant to the Credit Agreement, and all payments made on account of principal thereof, shall be recorded by the Lender and, prior to any transfer hereof, endorsed on the grid attached hereto which is part of this Promissory Note.

This Promissory Note is one of the Revolving Credit Notes referred to in, and is entitled to the benefits of, the Credit Agreement. The Credit Agreement, among other things, (i) provides for the making of Revolving Credit Advances by the Lender to the Borrower from time to time, the indebtedness of the Borrower resulting from each such Revolving Credit Advance being evidenced by this Promissory Note and (ii) contains provisions for acceleration of the maturity hereof upon the happening of certain stated events and also for prepayments on account of principal hereof prior to the maturity hereof upon the terms and conditions therein specified.

The Borrower hereby waives presentment, demand, protest and notice of any kind. No failure to exercise, and no delay in exercising, any rights hereunder on the part of the holder hereof shall operate as a waiver of such rights.

[NAME OF BORROWER]

By \_\_\_\_\_  
Title:



U.S. \$ \_\_\_\_\_

Dated: \_\_\_\_\_, 200\_

FOR VALUE RECEIVED, the undersigned, [NAME OF BORROWER], a \_\_\_\_\_ corporation (the "Borrower"), HEREBY PROMISES TO PAY to the order of \_\_\_\_\_ (the "Lender") for the account of its Applicable Lending Office (as defined in the Credit Agreement dated as of June 1, 2007 among the Borrower, [Scholastic Corporation] [Scholastic Inc.], the Lender and certain other lenders parties thereto, JPMorgan Chase Bank, National Association, as Agent for the Lender and such other lenders (as amended or modified from time to time, the "Credit Agreement"; the terms defined therein being used herein as therein defined)), on \_\_\_\_\_, 200\_, the principal amount of U.S. \$ \_\_\_\_\_].

The Borrower promises to pay interest on the unpaid principal amount hereof from the date hereof until such principal amount is paid in full, at the interest rate and payable on the interest payment date or dates provided below:

Interest Rate: \_\_\_\_\_% per annum (calculated on the basis of a year of \_\_\_\_\_ days for the actual number of days elapsed).

Both principal and interest are payable in lawful money of \_\_\_\_\_ to the Agent, for the account of the Lender at the office of \_\_\_\_\_ in same day funds.

This Promissory Note is one of the Competitive Bid Notes referred to in, and is entitled to the benefits of, the Credit Agreement. The Credit Agreement, among other things, contains provisions for acceleration of the maturity hereof upon the happening of certain stated events.

The Borrower hereby waives presentment, demand, protest and notice of any kind. No failure to exercise, and no delay in exercising, any rights hereunder on the part of the holder hereof shall operate as a waiver of such rights.

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

[NAME OF BORROWER]

By \_\_\_\_\_

Title:

Dated: \_\_\_\_\_, 200\_

FOR VALUE RECEIVED, the undersigned, [NAME OF BORROWER], a \_\_\_\_\_ corporation (the "Borrower"), HEREBY PROMISES TO PAY to the order of \_\_\_\_\_ (the "Lender") for the account of its Applicable Lending Office on the Termination Date (each as defined in the Credit Agreement referred to below) the aggregate principal amount of the Term Loan Advance made by the Lender to the Borrower pursuant to the Credit Agreement dated as of June 1, 2007 among the Borrower, [Scholastic Corporation][Scholastic Inc.], the Lender and certain other lenders parties thereto, JPMorgan Chase Bank, National Association, as Agent for the Lender and such other lenders (as amended or modified from time to time, the "Credit Agreement"; the terms defined therein being used herein as therein defined) outstanding on the Termination Date.

The Borrower promises to pay interest on the unpaid principal amount of the Term Loan Advance from the date of the Term Loan Advance until such principal amount is paid in full, at such interest rates, and payable at such times, as are specified in the Credit Agreement.

Both principal and interest are payable in lawful money of the United States of America to the Agent in same day funds. The Term Loan Advance owing to the Lender by the Borrower pursuant to the Credit Agreement, and all payments made on account of principal thereof, shall be recorded by the Lender and, prior to any transfer hereof, endorsed on the grid attached hereto which is part of this Promissory Note.

This Promissory Note is one of the Term Loan Notes referred to in, and is entitled to the benefits of, the Credit Agreement. The Credit Agreement, among other things, (i) provides for the making of the Term Loan Advance by the Lender to the Borrower from time to time, the indebtedness of the Borrower resulting from the Term Loan Advance being evidenced by this Promissory Note and (ii) contains provisions for acceleration of the maturity hereof upon the happening of certain stated events and also for prepayments on account of principal hereof prior to the maturity hereof upon the terms and conditions therein specified.

The Borrower hereby waives presentment, demand, protest and notice of any kind. No failure to exercise, and no delay in exercising, any rights hereunder on the part of the holder hereof shall operate as a waiver of such rights.

[NAME OF BORROWER]

By \_\_\_\_\_

Title:

PAYMENTS OF PRINCIPAL

**Date**

**Amount of  
Principal Paid  
or Prepaid**

**Unpaid Principal  
Balance**

**Notation  
Made By**

JPMorgan Chase Bank, National Association, as Agent  
for the Lenders parties  
to the Credit Agreement  
referred to below  
270 Park Avenue  
New York, New York 10017

[Date]

Attention: Loan and Agency Services Group

Ladies and Gentlemen:

The undersigned, [Name of Borrower], refers to the Credit Agreement, dated as of June 1, 2007 (as amended or modified from time to time, the "Credit Agreement", the terms defined therein being used herein as therein defined), among the undersigned, [Scholastic Corporation][Scholastic Inc.], certain Lenders parties thereto, JPMorgan Chase Bank, National Association, as Agent for said Lenders, and hereby gives you notice, irrevocably, pursuant to Section 2.02 of the Credit Agreement that the undersigned hereby requests a Revolving Credit Borrowing under the Credit Agreement, and in that connection sets forth below the information relating to such Revolving Credit Borrowing (the "Proposed Revolving Credit Borrowing") as required by Section 2.02(a) of the Credit Agreement:

(i) The Business Day of the Proposed Revolving Credit Borrowing is \_\_\_\_\_, 200\_.

(ii) The Type of Advances comprising the Proposed Revolving Credit Borrowing is [Base Rate Advances] [Eurodollar Rate Advances].

(iii) The aggregate amount of the Proposed Revolving Credit Borrowing is \$\_\_\_\_\_.

[(iv) The initial Interest Period for each Eurodollar Rate Advance made as part of the Proposed Revolving Credit Borrowing is \_\_\_\_\_ month[s].]

The undersigned hereby certifies that the following statements are true on the date hereof, and will be true on the date of the Proposed Revolving Credit Borrowing:

(A) the representations and warranties contained in Section 4.01 of the Credit Agreement are correct, before and after giving effect to the Proposed Revolving Credit Borrowing and to the application of the proceeds therefrom, as though made on and as of such date; and

(B) no event has occurred and is continuing, or would result from such Proposed Revolving Credit Borrowing or from the application of the proceeds therefrom, that constitutes a Default.

Very truly yours,

[NAME OF BORROWER]

By \_\_\_\_\_

Title:

JPMorgan Chase Bank, National Association, as Agent  
for the Lenders parties  
to the Credit Agreement  
referred to below  
270 Park Avenue  
New York, New York 10017

[Date]

Attention: Loan and Agency Services Group

Ladies and Gentlemen:

The undersigned, [Name of Borrower], refers to the Credit Agreement, dated as of June 1, 2007 (as amended or modified from time to time, the "Credit Agreement", the terms defined therein being used herein as therein defined), among the undersigned, [Scholastic Corporation][Scholastic Inc.], certain Lenders parties thereto, JPMorgan Chase Bank, National Association, as Agent for said Lenders, and hereby gives you notice, irrevocably, pursuant to Section 2.03 of the Credit Agreement that the undersigned hereby requests a Competitive Bid Borrowing under the Credit Agreement, and in that connection sets forth the terms on which such Competitive Bid Borrowing (the "Proposed Competitive Bid Borrowing") is requested to be made:

- (A) Date of Competitive Bid Borrowing \_\_\_\_\_
- (B) Amount of Competitive Bid Borrowing \_\_\_\_\_
- (C) [Maturity Date] [Interest Period] \_\_\_\_\_
- (D) Interest Rate Basis \_\_\_\_\_
- (E) Interest Payment Date(s) \_\_\_\_\_
- (F) \_\_\_\_\_

The undersigned hereby certifies that the following statements are true on the date hereof, and will be true on the date of the Proposed Competitive Bid Borrowing:

(a) the representations and warranties contained in Section 4.01 are correct, before and after giving effect to the Proposed Competitive Bid Borrowing and to the application of the proceeds therefrom, as though made on and as of such date;

(b) no event has occurred and is continuing, or would result from the Proposed Competitive Bid Borrowing or from the application of the proceeds therefrom, that constitutes a Default; and

(c) the aggregate amount of the Proposed Competitive Bid Borrowing and all other Borrowings to be made on the same day under the Credit Agreement is within the aggregate amount of the unused Commitments of the Lenders.

The undersigned hereby confirms that the Proposed Competitive Bid Borrowing is to be made available to it in accordance with Section 2.03(a)(v) of the Credit Agreement.

Very truly yours,

[NAME OF BORROWER]

By \_\_\_\_\_

Title:

JPMorgan Chase Bank, National Association, as Agent  
for the Lenders parties  
to the Credit Agreement  
referred to below  
270 Park Avenue  
New York, New York 10017

[Date]

Attention: Loan and Agency Services Group

Ladies and Gentlemen:

The undersigned, [Name of Borrower], refers to the Credit Agreement, dated as of June 1, 2007 (as amended or modified from time to time, the "Credit Agreement", the terms defined therein being used herein as therein defined), among the undersigned, [Scholastic Corporation][Scholastic Inc.], certain Lenders parties thereto, JPMorgan Chase Bank, National Association, as Agent for said Lenders, and hereby gives you notice, irrevocably, pursuant to Section 2.02 of the Credit Agreement that the undersigned hereby requests the Term Loan Borrowing under the Credit Agreement, and in that connection sets forth below the information relating to the Term Loan Borrowing (the "Proposed Term Loan Borrowing") as required by Section 2.02(a) of the Credit Agreement:

- (i) The Business Day of the Proposed Term Loan Borrowing is \_\_\_\_\_, 200\_.
- (ii) The Type of Advances comprising the Proposed Term Loan Borrowing is [Base Rate Advances] [Eurodollar Rate Advances].
- (iii) The aggregate amount of the Proposed Term Loan Borrowing is \$\_\_\_\_\_.
- [(iv) The initial Interest Period for each Eurodollar Rate Advance made as part of the Proposed Term Loan Borrowing is \_\_\_\_\_ month[s].]

The undersigned hereby certifies that the following statements are true on the date hereof, and will be true on the date of the Proposed Term Loan Borrowing:

(A) the representations and warranties contained in Section 4.01 of the Credit Agreement are correct, before and after giving effect to the Proposed Term Loan Borrowing and to the application of the proceeds therefrom, as though made on and as of such date; and

(B) no event has occurred and is continuing, or would result from such Proposed Revolving Term Loan Borrowing or from the application of the proceeds therefrom, that constitutes a Default.

Very truly yours,

[NAME OF BORROWER]

By \_\_\_\_\_

Title:

Reference is made to the Credit Agreement dated as of June 1, 2007 (as amended or modified from time to time, the "Credit Agreement") among Scholastic Corporation, a Delaware corporation, and Scholastic Inc., a New York corporation (the "Borrowers"), the Lenders (as defined in the Credit Agreement), JPMorgan Chase Bank, National Association, as administrative agent for the Lenders (the "Agent"). Terms defined in the Credit Agreement are used herein with the same meaning.

The "Assignor" and the "Assignee" referred to on Schedule I hereto agree as follows:

1. The Assignor hereby sells and assigns to the Assignee, and the Assignee hereby purchases and assumes from the Assignor, an interest in and to the Assignor's rights and obligations under the Credit Agreement as of the date hereof (other than in respect of Competitive Bid Advances and any Competitive Bid Notes) equal to the percentage interest specified on Schedule 1 hereto of all outstanding rights and obligations under the Credit Agreement together with participations in Letters of Credit held by the Assignor on the date hereof (other than in respect of Competitive Bid Advances and any Competitive Bid Notes). After giving effect to such sale and assignment, the Assignee's Commitment and the amount of the Revolving Credit Advances owing to the Assignee will be as set forth on Schedule 1 hereto.

2. The Assignor (i) represents and warrants that it is the legal and beneficial owner of the interest being assigned by it hereunder and that such interest is free and clear of any adverse claim; (ii) makes no representation or warranty and assumes no responsibility with respect to any statements, warranties or representations made in or in connection with the Credit Agreement or the execution, legality, validity, enforceability, genuineness, sufficiency or value of, or the perfection or priority of any lien or security interest created or purported to be created under or in connection with, the Loan Documents or any other instrument or document furnished pursuant thereto; (iii) makes no representation or warranty and assumes no responsibility with respect to the financial condition of the Borrowers or the performance or observance by any Borrower of any of its obligations under any Loan Document or any other instrument or document furnished pursuant thereto; and (iv) attaches the Note, if any, held by the Assignor [and requests that the Agent exchange such Note for a new Note payable to the order of [the Assignee in an amount equal to the Commitment assumed by the Assignee pursuant hereto or new Notes payable to the order of the Assignee in an amount equal to the Commitment assumed by the Assignee pursuant hereto and] the Assignor in an amount equal to the Commitment retained by the Assignor under the Credit Agreement, [respectively,] as specified on Schedule 1 hereto.

3. The Assignee (i) confirms that it has received a copy of the Credit Agreement, together with copies of the financial statements referred to in Section 4.01 thereof and such other documents and information as it has deemed appropriate to make its own credit analysis and decision to enter into this Assignment and Acceptance; (ii) agrees that it will, independently and without reliance upon the Agent, the Assignor or any other Lender and based on such documents and information as it shall deem appropriate at the time, continue to make its own credit decisions in taking or not taking action under the Credit Agreement; (iii) confirms that it is an Eligible Assignee; (iv) appoints and authorizes the Agent to take such action as agent on its behalf and to exercise such powers and discretion under the Loan Documents as are delegated to the Agent by the terms thereof, together with such powers and discretion as are reasonably incidental thereto; (v) agrees that it will perform in accordance with their terms all of the obligations that by the terms of the Credit Agreement are required to be performed by it as a Lender; and (vi) attaches any U.S. Internal Revenue Service forms required under Section 2.14 of the Credit Agreement.

4. Following the execution of this Assignment and Acceptance, it will be delivered to the Agent for acceptance and recording by the Agent. The effective date for this Assignment and Acceptance (the "Effective Date") shall be the date of acceptance hereof by the Agent, unless otherwise specified on Schedule 1 hereto.

5. Upon such acceptance and recording by the Agent, as of the Effective Date, (i) the Assignee shall be a party to the Credit Agreement and, to the extent provided in this Assignment and Acceptance, have the rights and obligations of a Lender thereunder and (ii) the Assignor shall, to the extent provided in this Assignment and Acceptance, relinquish its rights and be released from its obligations under the Credit Agreement.

6. Upon such acceptance and recording by the Agent, from and after the Effective Date, the Agent shall make all payments under the Credit Agreement and any Notes in respect of the interest assigned hereby (including, without limitation, all payments of principal, interest and facility fees with respect thereto) to the Assignee. The Assignor and Assignee shall make all appropriate adjustments in payments under the Credit Agreement and any Notes for periods prior to the Effective Date directly between themselves.

7. This Assignment and Acceptance shall be governed by, and construed in accordance with, the laws of the State of New York.

8. This Assignment and Acceptance 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 Schedule 1 to this Assignment and Acceptance by telecopier shall be effective as delivery of a manually executed counterpart of this Assignment and Acceptance.

IN WITNESS WHEREOF, the Assignor and the Assignee have caused Schedule 1 to this Assignment and Acceptance to be executed by their officers thereunto duly authorized as of the date specified thereon.

Schedule 1  
to  
Assignment and Acceptance

Percentage interest assigned:	_____ %
Assignee's Commitment:	\$ _____
Aggregate outstanding principal amount of Revolving Credit Advances assigned:	\$ _____
Aggregate outstanding principal amount of Term Loan Advance assigned:	\$ _____
Principal amount of Revolving Credit Advance payable to Assignee:	\$ _____
Principal amount of Revolving Credit Advance payable to Assignor:	\$ _____
Principal amount of Term Loan Advance payable to Assignee:	\$ _____
Principal amount of Term Loan Advance payable to Assignor:	\$ _____
Effective Date*: _____, 200_	

[NAME OF ASSIGNOR], as Assignor

By \_\_\_\_\_

Title:

Dated: \_\_\_\_\_, 200\_

[NAME OF ASSIGNEE], as Assignee

By \_\_\_\_\_

Title:

Dated: \_\_\_\_\_, 200\_

Domestic Lending Office:  
[Address]

\* This date should be no earlier than five Business Days after the delivery of this Assignment and Acceptance to the Agent.

Accepted this

\_\_\_\_\_ day of \_\_\_\_\_, 200\_

JPMORGAN CHASE BANK, NATIONAL  
ASSOCIATION, as Agent

By \_\_\_\_\_

Title:

Approved this \_\_\_\_\_ day

of \_\_\_\_\_, 200\_

SCHOLASTIC CORPORATION

By \_\_\_\_\_

Title:

SCHOLASTIC INC.

By \_\_\_\_\_

Title:

[Effective Date]

To each of the Lenders parties  
to the Credit Agreement dated  
as of June 1, 2007  
among Scholastic Corporation, Scholastic Inc.,  
said Lenders and JPMorgan Chase Bank, National Association,  
as Agent for said Lenders, and  
to JPMorgan Chase Bank, National Association, as Agent

Scholastic Corporation and Scholastic Inc.

Ladies and Gentlemen:

This opinion is furnished to you pursuant to Section 3.01(h)(iv) of the Credit Agreement, dated as of June 1, 2007 (the "Credit Agreement"), among Scholastic Corporation and Scholastic Inc. (the "Borrowers"), the Lenders parties thereto, JPMorgan Chase Bank, National Association, as Agent for said Lenders. Terms defined in the Credit Agreement are used herein as therein defined.

We have acted as counsel for the Borrowers in connection with the preparation, execution and delivery of the Credit Agreement.

In that connection, we have examined:

- (1) The Credit Agreement.
- (2) The documents furnished by the Borrowers pursuant to Article III of the Credit Agreement.
- (3) The [Articles] [Certificate] of Incorporation of each Borrower and all amendments thereto (the "Charter").
- (4) The by-laws of each Borrower and all amendments thereto (the "By-laws").
- (5) A certificate of the Secretary of State of Delaware, dated \_\_\_\_\_, 2007, attesting to the continued corporate existence and good standing of the Holding Company in that State.
- (6) A certificate of the Secretary of State of New York, dated \_\_\_\_\_, 2007 attesting to the continued corporate existence and good standing of the Operating Company in that State.

We have also examined the originals, or copies certified to our satisfaction, of the documents listed in certificates of the chief financial officers of the Borrowers, dated the date hereof (the "Certificates"),

certifying that the documents listed in such certificate are all of the indentures, loan or credit agreements, leases, guarantees, mortgages, security agreements, bonds, notes and other agreements or instruments, and all of the orders, writs, judgments, awards, injunctions and decrees, that affect or purport to affect such Borrower's right to borrow money or such Borrower's obligations under the Credit Agreement or any Notes. In addition, we have examined the originals, or copies certified to our satisfaction, of such other corporate records of the Borrowers, certificates of public officials and of officers of the Borrowers, and agreements, instruments and other documents, as we have deemed necessary as a basis for the opinions expressed below. As to questions of fact material to such opinions, we have, when relevant facts were not independently established by us, relied upon certificates of the Borrowers or their officers or of public officials. We have assumed the due execution and delivery, pursuant to due authorization, of the Credit Agreement by the Initial Lenders and the Agent.

Our opinions expressed below are limited to the law of the State of New York, the General Corporation Law of the State of Delaware and the Federal law of the United States.

Based upon the foregoing and upon such investigation as we have deemed necessary, we are of the following opinion:

1. Each Borrower is a corporation duly organized, validly existing and in good standing under the laws of the State of its incorporation.

2. The execution, delivery and performance by each Borrower of the Credit Agreement and any Notes to which it is a party, and the consummation of the transactions contemplated thereby, are within such Borrower's corporate powers, have been duly authorized by all necessary corporate action, and do not contravene (i) the Charter or the By-laws of such Borrower or (ii) any law, rule or regulation applicable to such Borrower (including, without limitation, Regulation X of the Board of Governors of the Federal Reserve System) or (iii) any contractual or legal restriction contained in any indentures, loan or credit agreements, leases, guarantees, mortgages, security agreements, bonds, notes and other agreements or instruments, or any orders, writs, judgments, awards, injunctions and decrees, that affect or purport to affect such Borrower's right to borrow money or such Borrower's obligations under the Credit Agreement or any Notes. The Credit Agreement and the Notes have been duly executed and delivered on behalf of each Borrower.

3. No authorization, approval or other action by, and no notice to or filing with, any governmental authority or regulatory body or any other third party is required for the due execution, delivery and performance by any Borrower of the Credit Agreement and the Notes to which it is a party.

4. The Credit Agreement is, and after giving effect to the initial Borrowing, the Notes to which it is a party will be, legal, valid and binding obligations of each Borrower enforceable against such Borrower in accordance with their respective terms.

5. To the best of our knowledge, there are no pending or overtly threatened actions or proceedings against any Borrower or any of its Subsidiaries before any court, governmental agency or arbitrator that purport to affect the legality, validity, binding effect or enforceability of the Credit Agreement or any of the Notes or the consummation of the transactions contemplated thereby or that are likely to have a Material Adverse Effect.

The opinions set forth above are subject to the following qualifications:

(a) Our opinion in paragraph 4 above as to enforceability is subject to the effect of any applicable bankruptcy, insolvency (including, without limitation, all laws relating to fraudulent transfers), reorganization, moratorium or similar law affecting creditors' rights generally.

(b) Our opinion in paragraph 4 above as to enforceability is subject to the effect of general principles of equity, including, without limitation, concepts of materiality, reasonableness, good faith and fair dealing (regardless of whether considered in a proceeding in equity or at law).

(c) We express no opinion as to (i) Section 2.14 of the Credit Agreement insofar as it provides that any Lender purchasing a participation from another Lender pursuant thereto may exercise set-off or similar rights with respect to such participation and (ii) the effect of the law of any jurisdiction other than the State of New York wherein any Lender may be located or wherein enforcement of the Credit Agreement or any Notes may be sought that limits the rates of interest legally chargeable or collectible.

Very truly yours,

**FINANCIAL COVENANTS COMPLIANCE CERTIFICATE**

respecting

SCHOLASTIC CORPORATION

and

SCHOLASTIC INC.

[MONTH and DATE], 200\_

Pursuant to the Credit Agreement dated as of June 1, 2007 (as the same may be supplemented, modified, amended or restated from time to time in the manner provided therein, the "Credit Agreement"), the undersigned, being respectively, the [PRINT TITLE] of Scholastic Corporation and the [PRINT TITLE] of Scholastic Inc. (individually, a "Borrower" and, collectively, the "Borrowers"), hereby certify to JPMorgan Chase Bank, National Association, as Agent (the "Agent"), and to each of the Lenders, as of the date hereof that:

(d) the representations and warranties contained in Section 4.01 are correct as though made on and as of the date hereof;

(e) no event has occurred and is continuing that constitutes a Default; and

(f) attached hereto are the calculations of, and the confirmations of the Borrowers' compliance with, the financial covenants set forth in Section 5.03 of the Credit Agreement.

Capitalized terms and non-capitalized words and phrases used and not otherwise defined in this Certificate shall have the meanings respectively assigned to them in the Lender and by counsel to the Agent in giving any opinion or advice requested of such counsel.

(SIGNATURE)

DATE SIGNED: \_\_\_\_\_, 200\_

(SIGNATURE)

DATE SIGNED: \_\_\_\_\_, 200\_

**SCHOLASTIC CORPORATION**  
and  
**SCHOLASTIC INC.**

**CREDIT FACILITIES**

June 1, 2007

LIST OF CLOSING DOCUMENTS<sup>1</sup>

**A. LOAN DOCUMENTS**

1. Credit Agreement (the “Credit Agreement”) by and among Scholastic Corporation, a Delaware corporation (the “Holding Company”), and Scholastic Inc., a New York corporation (the “Operating Company”; and, collectively with the Holding Company, the “Borrowers”), the institutions from time to time parties thereto as Lenders (the “Lenders”) and JPMorgan Chase Bank, National Association, in its capacity as Administrative Agent for itself and the other Lenders (the “Administrative Agent”), evidencing a revolving credit facility to the Borrowers from the Lenders in an initial aggregate principal amount of \$325,000,000 and a term loan facility to any one Borrower from the Lenders in an initial aggregate principal amount of \$200,000,000.

SCHEDULES

Commitment Schedule

<b>Schedule 2.16(h)</b>	—	<b>Existing Letters of Credit</b>
<b>Schedule 4.01(i)</b>	—	<b>Subsidiaries</b>
<b>Schedule 5.02(a)</b>	—	<b>Existing Liens</b>

EXHIBITS

Exhibit A-1	—	Form of Revolving Credit Note
Exhibit A-2	—	Form of Competitive Bid Note
Exhibit A-3	—	Form of Term Loan Note
Exhibit B-1	—	Form of Notice of Revolving Credit Borrowing
Exhibit B-2	—	Form of Notice of Competitive Bid Borrowing
Exhibit B-3	—	Form of Notice of Term Loan Borrowing
Exhibit C	—	Form of Assignment and Acceptance
Exhibit D	—	Form of Opinion of Counsel for the Borrowers
Exhibit E	—	Form of Financial Covenants Compliance Certificate
Exhibit F	—	List of Closing Documents

<sup>1</sup> Each capitalized term used herein and not defined herein shall have the meaning assigned to such term in the above-defined Credit Agreement. Items appearing in **bold** and *italics* shall be prepared and/or provided by the Borrowers and/or Borrowers’ counsel.

- Notes executed by the Borrowers in favor of each of the Lenders, if any, which has requested a note pursuant to Section 3.01(h) of the Credit Agreement.

#### B. CORPORATE DOCUMENTS

- Certificate of the Secretary or an Assistant Secretary of each Borrower certifying (i) that there have been no changes in the Certificate of Incorporation or other charter document of such Borrower, as attached thereto and as certified as of a recent date by the Secretary of State of the jurisdiction of its organization, since the date of the certification thereof by such secretary of state, (ii) the By-Laws or other applicable organizational document, as attached thereto, of such Borrower as in effect on the date of such certification, (iii) resolutions of the Board of Directors or other governing body of such Borrower authorizing the execution, delivery and performance of each Loan Document to which it is a party, and (iv) the names and true signatures of the incumbent officers of each Borrower authorized to sign the Loan Documents to which it is a party, and authorized to request a Borrowing or the issuance of a Letter of Credit under the Credit Agreement.*
- Good Standing Certificate for each Borrower from the Secretary of State of the jurisdiction of its organization.*

#### C. OPINIONS

- Opinion of Devereux Chatillon, Senior Vice President and General Counsel of the Borrowers.*

#### D. CLOSING CERTIFICATES AND MISCELLANEOUS

- A Certificate signed by duly authorized officer of the Holding Company certifying the following: (i) the representations and warranties contained in Section 4.01 of the Credit Agreement are correct on and as of the Effective Date and (ii) no Default has occurred and is then continuing.*
- Payoff documentation providing evidence reasonably satisfactory to the Administrative Agent that the Existing Credit Agreement has been terminated and cancelled (along with all of the agreements, documents and instruments delivered in connection therewith) and all Indebtedness owing thereunder has been repaid and any and all liens thereunder have been terminated.*

**SCHOLASTIC CORPORATION**  
**SUBSIDIARY LIST**  
**(subsidiaries are indented under its direct parent)**

Scholastic Inc.	New York
Scholastic Book Clubs, Inc.	Missouri
Scholastic Operations Group L.L.C.	Delaware
Scholastic Entertainment Inc.	New York
SE Distribution Inc.	Delaware
524 Films L.L.C.	New York
RetroRanch LLC	Delaware
Scholastic Book Services, Inc.	Delaware
Scholastic UK Group L.L.C.	Delaware
Scholastic UK Limited	England
Chicken House Publishing Ltd.	England
Scholastic Book Clubs Ltd.	England
Scholastic Ltd.	England
Catteshall Ltd. (50% owned)	England
Scholastic Ireland Ltd.	Ireland
Weston Woods Studios, Inc.	Delaware
Georgetown Studios, Inc.	Connecticut
Children's Music Library, Inc.	New York
Lectorum Publications, Inc.	New York
The Scholastic Store, Inc.	New York
Scholastic Interactive Xchange, Inc.	Delaware
Tom Snyder Productions, Inc.	Delaware
Soup2Nuts Inc.	Delaware
Scholastic Distribution Services, L.L.C.	Delaware
RetroRanch Inc.	Delaware
Klutz	California
Sandvik Publishing Ltd.	Nevada
Teacher's Friend Publications, Inc.	California
The Book People Inc. (80% owned)	Delaware
Scholastic Export Inc.	Delaware
Scholastic Book Fairs, Inc.	Delaware
BTBCAT, Inc.	Delaware
Teacher Synergy, Inc.	Delaware
International Center for Leadership in Education, Inc.	New York
Scholastic Australia Pty. Ltd.	Australia
Bookshelf Publishing Australia Pty. Ltd.	Australia
Troll School Book Clubs and Fairs Australia Pty. Ltd.	Australia
Scholastic Australia Superannuation Pty. Ltd.	Australia
Scholastic Executive Superannuation Pty. Ltd.	Australia
Oldmeadow Booksellers Pty. Ltd.	Australia
Scholastic Canada Ltd.	Canada
Scholastic Productions Canada Ltd.	Canada
Scholastic Bookfairs Canada Ltd.	Canada
Scholastic Hong Kong Limited	Hong Kong
Scholastic India Private Limited	India
Scholastic Mexico S. de R. L. de C.V.	Mexico
Scholastic New Zealand Ltd.	New Zealand
Scholastic Argentina S.A.	Argentina
Scholastic Education Information Consulting (Shanghai) Co., Ltd.	China
Scholastic International IT Support Centre Private Limited	India
Grolier Incorporated	Delaware
Scholastic at Home Inc.	Delaware
Scholastic Distribution Services L.L.C	Delaware

**SCHOLASTIC CORPORATION**  
**SUBSIDIARY LIST**  
**(subsidiaries are indented under its direct parent)**

Grolier Interactive Inc.	Delaware
Scholastic Library Publishing, Inc.	Delaware
Grolier Reading Programs Inc.	Delaware
Grolier Telemarketing, Inc.	Delaware
Grolier Incorporated	Delaware
Orchard Books, Inc.	New York
Publishers World Trade Corporation	Delaware
Federated Credit Corp.	Delaware
Grolier International, Inc.	Delaware
Grolier Direct Marketing Pty. Ltd.	Australia
Grolier International Finance Inc. (60% owned)	Philippines
Grolier SDN BHD (62% owned)	Malaysia
Grolier Overseas Incorporated	Delaware
Grolier International Private Limited	India
Grolier Limited	Canada
Caribe Grolier, Inc.	Puerto Rico
Grolier International Limited	England
Grolier Credit Services Limited	England
Grolier Limited	England
Transtutor Limited	England
Just Books! Limited	England
Waverly House Limited	England

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**Consent of Independent Registered Public Accounting Firm**

We consent to the incorporation by reference in the Registration Statement Form S-8 (File Nos. 333-62297 and 333-110302) pertaining to the Scholastic Corporation 1997 Outside Director's Stock Option Plan; Registration Statement Form S-8 (File No. 333-65757) pertaining to the Scholastic Corporation 1995 Stock Option Plan; Registration Statement Form S-8 (File Nos. 333-68181 and 333-110301) pertaining to the Scholastic Corporation Employee Stock Purchase Plan; Registration Statement Form S-8 (File Nos. 33-48655, 33-69058, and 33-91090) pertaining to the Scholastic Corporation 401(k) Savings and Retirement Plan; Registration Statement Form S-8 (File No. 333-68185) pertaining to the Scholastic Corporation Management Stock Purchase Plan; and Registration Statement Form S-8 (File No. 333-77010) pertaining to the Scholastic Corporation 2001 Stock Incentive Plan of our reports dated July 27, 2007, with respect to the consolidated financial statements and schedule of Scholastic Corporation, Scholastic Corporation management's assessment of effectiveness of internal control over financial reporting, and the effectiveness of internal control over financial reporting of Scholastic Corporation, included in this Annual Report (Form 10-K) for the year ended May 31, 2007.

/s/ Ernst & Young LLP

New York, New York  
July 27, 2007

A Member Practice of Ernst & Young Global

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I, Richard Robinson, the principal executive officer of Scholastic Corporation, certify that:

1. I have reviewed this Annual Report on Form 10-K of Scholastic Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):
  - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: July 30, 2007

/s/Richard Robinson  
Richard Robinson  
Chairman of the Board,  
President and Chief Executive Officer

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I, Maureen O'Connell, the principal financial officer of Scholastic Corporation, certify that:

1. I have reviewed this Annual Report on Form 10-K of Scholastic Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):
  - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: July 30, 2007

/s/ Maureen O'Connell  
Maureen O'Connell  
Executive Vice President,  
Chief Administrative Officer  
and Chief Financial Officer

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**Certification**  
**Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002**  
**with Respect to the Annual Report on Form 10-K**  
**for the Year ended May 31, 2007**  
**of Scholastic Corporation**

Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (subsections (a) and (b) of section 1350, chapter 63 of title 18, United States Code), each of the undersigned officers of Scholastic Corporation, a Delaware corporation (the "Company"), does hereby certify to the best of such officer's knowledge, that:

1. The Company's Annual Report on Form 10-K for the year ended May 31, 2007 (the "Form 10-K") fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
2. Information contained in the Form 10-K fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: July 30, 2007

/s/Richard Robinson  
Richard Robinson  
Chief Executive Officer

Dated: July 30, 2007

/s/Maureen O'Connell  
Maureen O'Connell  
Chief Financial Officer

The certification set forth above is being furnished as an exhibit solely pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 and is not being filed as part of the Form 10-K or as a separate disclosure document of the Company or the certifying officers.

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