

SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

Form 8-K

Current Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of  
1934

Date of Report (November 16, 1998)(November18, 1998)

SCHOLASTIC CORPORATION  
(Exact name of registrant as specified in its charter)

0-19860  
Commission File Number

DELAWARE  
(State or other jurisdiction of  
incorporation or organization)

13-3385513  
(IRS Employer Identification No.)

555 Broadway, New York, New York  
(Address of principal executive offices)

10012  
(Zip Code)

Registrant's telephone number, including area code (212) 343-6100

SCHOLASTIC CORPORATION  
CURRENT REPORT ON FORM 8-K, DATED NOVEMBER 18, 1998  
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Item 5. Other Events

On September 16, 1998, the Board of Directors of the Company approved, subject to approval of the holders of the Company's Class A Stock, \$.01 par value (the "Class A Stock"), two new employee benefit programs - the Scholastic Corporation 1998 Employee Stock Purchase Plan (the "Employee Plan") and the Scholastic Corporation Management Stock Purchase Plan (the "Management Plan;" the Employee Plan and the Management Plan are collectively referred to as the "Plans"). The Plans are designed to encourage broad-based employee stock ownership by enabling eligible employees of the Company to acquire the Company's Common Stock, \$.01 par value (the "Common Stock").

Although only holders of Class A Stock have the right to vote to approve the Plans, the Board of Directors of the Company believes that it is important that all of the Company's stockholders be provided, for their information, the opportunity to become acquainted with the key terms of the Plans. Accordingly, a description of the proposed Plans (attached hereto as Exhibit 99.1) was mailed on or about November 16, 1998 to holders of record of the Company's Common Stock as of November 6, 1998 for their information.

The Employee Plan allows eligible employees to purchase Common Stock at a discount through payroll deductions. The Employee Plan is intended to qualify as an "employee stock purchase plan" under Section 423 of the Internal Revenue Code of 1986, as amended (the "Code"). Any employee who is a "5% owner" of the Company's securities may not participate in the Employee Plan. In addition, as described below, specified employees may be excluded from participation in the Employee Plan

The Management Plan is intended to create a means to provide deferred compensation to selected management employees of the Company and its affiliates and to raise their level of stock ownership in the Company. The Management Plan allows eligible employees to purchase restricted stock units ("RSUs") on a pretax basis and at a discount (subject to certain conditions) with amounts that would otherwise be paid as cash bonuses under the Company's Annual Incentive Plan. The Management Plan will at all times be entirely unfunded, and no participant or other person will own any interest in any particular assets of the Company or any of its affiliates (including Common Stock) by reason of the right to receive payment under the Management Plan until distribution of any vested amount. It is anticipated that the Management Plan will generally cover vice-presidents and above and that employees who participate in the Management Plan will not be eligible to participate in the Employee Plan.

Both Plans may be amended, frozen or terminated at any time. No amendment will be effective unless approved by the holders of Class A Stock of the Company if such stockholder approval of such amendment is required to comply with Section 423 of the Code (solely with regard to the Employee Plan) or any applicable law, regulation or stock exchange rule.



(Item 5 continued)

A maximum of 200,000 shares of Common Stock have been reserved under the Employee Plan and a maximum of 150,000 shares have been reserved under the Management Plan, in each case, subject to adjustment in certain events. The shares available under either Plan may be treasury shares or authorized but unissued shares and, in the case of the Employee Plan, shares may also be purchased on the open market.

The foregoing is summary of the Plans and is qualified in its entirety by the plan documents. Copies of the proposed Employee Plan and Management Plan being submitted for approval by the holders of Class A Stock are included hereto as Exhibit 10.14 and Exhibit 10.15, respectively.

Item 7. Exhibits

Exhibit Number -----	Description of Document -----
10.14	Proposed form of the Scholastic Corporation 1998 Employee Stock Purchase Plan.
10.15	Proposed form of the Scholastic Corporation Management Stock Purchase Plan.
99.1	Letter to Stockholders, dated November 16, 1998.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

SCHOLASTIC CORPORATION  
(Registrant)

/s/ Richard Robinson

Date: November 18, 1998

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Richard Robinson  
Chairman, Chief Executive Officer &  
President

SCHOLASTIC CORPORATION  
CURRENT REPORT ON FORM 8-K, DATED NOVEMBER 18, 1998  
EXHIBIT INDEX

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Exhibit Number -----	Description of Document -----	Page Number in Sequentially Numbered Copy -----
Exhibit 10.14	Proposed form of Scholastic Corporation 1998 Employee Stock Purchase Plan.	E-1
Exhibit 10.15	Proposed form of Scholastic Corporation Management Stock Purchase Plan	E-2
Exhibit 99.1	Letter to Stockholders, dated November 16, 1998	E-3

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PROPOSED FORM OF  
SCHOLASTIC CORPORATION  
1998 EMPLOYEE STOCK PURCHASE PLAN

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SCHOLASTIC CORPORATION

1998 EMPLOYEE STOCK PURCHASE PLAN

1. Purpose.

The purpose of Scholastic Corporation 1998 Employee Stock Purchase Plan (the "Plan") is to encourage and enable eligible employees of Scholastic Corporation (the "Company") and certain affiliated companies to acquire proprietary interests in the Company through the ownership of Common Stock of the Company. The Company believes that employees who participate in the Plan will have a closer identification with the Company by virtue of their ability as stockholders to participate in the Company's growth and earnings. It is the intention of the Company to have the Plan qualify as an "employee stock purchase plan" under Section 423 of the Code. Accordingly, the provisions of the Plan shall be construed so as to extend and limit participation in a manner consistent with the requirements of that section of the Code.

2. Definitions.

The following words or terms have the following meanings:

(a) "Agent" shall mean the agent, broker or other administrator, including without limitation, employees of the Employer, appointed by the Committee pursuant to Section 4(b) hereof.

(b) "Annual Pay" shall mean an amount equal to the sum of (i) the annual basic rate of pay of an Eligible Employee as determined from the payroll records of the Company, a Designated Subsidiary or Designated Parent on the effective date of an offer of Common Stock made pursuant to the Plan and (ii) such other types of compensation that may be paid to the Eligible Employee by the Company, a Designated Subsidiary or Designated Parent, as determined by the Committee to be included as Annual Pay; provided that any such determination shall be applied on a uniform and consistent basis to all Eligible Employees.

(c) "Board of Directors" shall mean Board of Directors of the Company or the Executive Committee of such Board of Directors.

(d) "Code" shall mean the Internal Revenue Code of 1986, as amended.

(e) "Committee" shall mean the committee of the Board of Directors of the Company appointed to administer the Plan. To the extent that no Committee exists which has the authority to administer the Plan, the functions of the Committee shall be exercised by the Board of Directors.

(f) "Company" shall mean Scholastic Corporation, a corporation organized under the laws of Delaware (or any successor corporation).



(g) "Designated Parent" shall mean any Parent of the Company which is specifically designated as eligible to participate in the Plan by the Committee from time to time in its sole discretion.

(h) "Designated Subsidiaries" shall mean each Subsidiary of the Company on the effective date of the Plan and future Subsidiaries which are not specifically excluded from participation by the Committee from time to time in its sole discretion. Notwithstanding the foregoing, the term "Designated Subsidiaries" shall not include Subsidiaries located in Foreign Jurisdictions, unless the Committee specifically designates such Subsidiary as a Designated Subsidiary.

(i) "Eligible Employee" shall mean any person (i) whose customary employment is for more than twenty (20) hours per week for an Employer; (ii) whose customary employment is for more than five (5) months per year; and (iii) who has completed the Eligibility Period. Notwithstanding the foregoing, the Committee may exclude the employees of any specified Designated Parent or Designated Subsidiary from any offering under the Plan.

(j) "Eligibility Period" shall mean, with respect to any employee, the ninety (90) day period commencing on the employee's first day of employment with the Employer. Notwithstanding the foregoing, the Committee may, in its sole discretion, increase or decrease the length of the Eligibility Period with respect to the employees of the Company, and any and all Designated Parent and Designated Subsidiaries; provided that such period shall in no event exceed two (2) years.

(k) "Employer" shall mean, with respect to any employee, the Company or Designated Subsidiary or Designated Parent by which the employee is employed.

(l) "Exchange Act" shall mean the Securities Exchange Act of 1934, as amended.

(m) "Exercise Date" shall mean the last business day of each Offering Period in which payroll deductions are made under the Plan.

(n) "Foreign Jurisdiction" shall mean any jurisdiction outside of the United States including, without limitation, countries, states, provinces, and localities.

(o) "Market Price" for purposes of this Plan, unless otherwise required by any applicable provision of the Code or any regulations issued thereunder, as of any date, the last sales price reported for the Common Stock on the applicable date: (i) as reported on the principal national securities exchange on which it is then traded or the Nasdaq Stock Market, Inc. or (ii) if not traded on any such national securities exchange or the Nasdaq Stock Market, Inc. as quoted on an automated quotation system sponsored by the National Association of Securities Dealers, Inc. If the Common Stock is not readily tradable on a national securities exchange, the Nasdaq Stock Market,

Inc. or any automated quotation system sponsored by the National Association of Securities Dealers, Inc., its Market Value shall be set in good faith by the Committee.

(p) "Offering Date" shall mean such dates designated by the Committee in its sole discretion.

(q) "Option" shall mean the right or rights granted to Eligible Employees to purchase the Company's Common Stock under an offering made under the Plan and pursuant to such Eligible Employees' elections to purchase.

(r) "Parent" shall mean any corporation (other than the Company) in an unbroken chain of corporations ending with the Company if, at the time of granting an Option, each of the corporations other than the employer corporation owns stock possessing fifty percent (50%) or more of the total combined voting power of all classes of stock in one of the other corporations in such chain.

(s) "Participant" shall mean an Eligible Employee who participates in the Plan.

(t) "Plan" shall mean the Scholastic Corporation 1998 Employee Stock Purchase Plan, as amended from time to time.

(u) "Purchase Period" shall mean the such period designated by the Committee during which installment payments for Common Stock purchased under the Plan shall be made.

(v) "Rule 16b-3" shall mean Rule 16b-3 promulgated under Section 16(b) of the Exchange Act as then in effect or any successor provisions.

(w) "Shares", "Stock" or "Common Stock" shall mean shares of the Company's common stock, par value \$.01 per share.

(x) "Subsidiary" shall mean any corporation (other than the Company) in an unbroken chain of corporations beginning with the Company at the time of granting an Option, each of the corporations other than the last corporation in the unbroken chain owns stock possessing fifty percent (50%) or more of the total combined voting power of all classes of stock in one of the other corporations in such chain.

(y) "Subscription Period" shall mean that period of time prescribed in any offer of Common Stock under the Plan beginning on the first day Eligible Employees may elect to purchase Shares and ending on the last day such elections to purchase are authorized to be received and accepted.

### 3. Shares Reserved for Plan.

(a) The Shares of the Company's Common Stock to be sold to Eligible Employees under the Plan may, at the election of the Committee, be purchased by the Agent on the open market or may be treasury shares or newly-issued and authorized Shares delivered to the Plan, upon such terms as the Committee may approve. The maximum number of Shares which shall be reserved and made available for sale under the Plan shall be 200,000, subject to adjustment as provided in paragraph (b) of this Section. The Shares reserved may be issued and sold pursuant to one or more offerings under the Plan. With respect to each offering, the Committee will specify the number of Shares to be made available, the length of the Subscription Period, the length of the Purchase Period, the Offering Dates and such other terms and conditions not inconsistent with the Plan as may be necessary or appropriate. In no event shall the Subscription Period and the Purchase Period together exceed twenty-seven (27) months for any offering.

(b) In the event of any increase, reduction, or change or exchange of Common Stock for a different number or kind of Shares or other securities of the Company by reason of a reclassification, recapitalization, merger, consolidation, reorganization, stock dividend, stock split or reverse stock split, combination or exchange of Shares, repurchase of Shares, change in corporate structure or otherwise, the Committee shall conclusively determine the appropriate equitable adjustments, if any, to be made under the Plan, including without limitation adjustments to the number of Shares which have been authorized for issuance under the Plan but have not yet been placed under Option, as well as the price per Share of Common Stock covered by each Option under the Plan which has not yet been exercised.

(c) In the event of the complete liquidation of the Company or of a reorganization, consolidation or merger in which the Company is not the surviving Corporation, any Option granted under the Plan shall continue in full force and effect unless either (i) the Committee modifies such Option so that it is fully exercisable with respect to all of the Common Stock subject thereto prior to the effective date of such transaction or (ii) the surviving corporation issues or assumes a stock option as contemplated under Section 424(a) of the Code.

### 4. Administration of the Plan.

(a) The Plan shall be administered by the Committee and the Committee may select an administrator or any other person to whom its duties and responsibilities hereunder may be delegated. The Committee shall have full power and authority, subject to the provisions of the Plan, to promulgate such rules and regulations as it deems necessary for the proper administration of the Plan, to interpret the provisions and supervise the administration of the Plan, and to take all actions in connection therewith or in relation thereto as it deems necessary or advisable. The Committee may adopt special guidelines and provisions for persons who are residing in, or subject to the laws of, Foreign Jurisdictions to comply with applicable tax and securities laws. All interpretations and determinations of the Committee shall be made in its sole and absolute discretion based on the Plan document and shall be final, conclusive and binding on all parties.

(b) The Committee may employ such legal counsel, consultants, brokers and agents as it may deem desirable for the administration of the Plan and may rely upon any opinion received from any such counsel or consultant and any computation received from any such consultant, broker or agent. The Committee may, in its sole discretion, designate an Agent to administer the Plan, purchase and sell Shares in accordance with the Plan, keep records, send statements of account to employees and to perform other duties relating to the Plan, as the Committee may request from time to time. The Agent shall serve as custodian for purposes of the Plan and, unless otherwise requested by the Participant, Common Stock purchased under the Plan shall be held by and in the name of, or in the name of a nominee of, the custodian for the benefit of each Participant, who shall thereafter be a beneficial stockholder of the Company. The Committee may adopt, amend or repeal any guidelines or requirements necessary for the custody and delivery of the Common Stock, including, without limitation, guidelines regarding the imposition of reasonable fees in certain circumstances.

(c) The Company shall, to the fullest extent permitted by law and the Certificate of Incorporation and By-laws of the Company and, to the extent not covered by insurance, indemnify each director, officer or employee of the Employer (including the heirs, executors, administrators and other personal representatives of such person) and each member of the Committee against all expenses, costs, liabilities and losses (including attorneys' fees, judgments, fines, excise taxes or penalties, and amounts paid or to be paid in settlement) actually and reasonably incurred by such person in connection with any threatened, pending or actual suit, action or proceeding (whether civil, criminal, administrative or investigative in nature or otherwise) in which such person may be involved by reason of the fact that he or she is or was serving this Plan in any capacity at the request of the Company, except in instances where any such person engages in willful neglect or fraud. Such right of indemnification shall include the right to be paid by the Company for expenses incurred or reasonably anticipated to be incurred in defending any such suit, action or proceeding in advance of its disposition; provided, however, that the payment of expenses in advance of the settlement or final disposition of a suit, action or proceeding, shall be made only upon delivery to the Company of an undertaking by or on behalf of such person to repay all amounts so advanced if it is ultimately determined that such person is not entitled to be indemnified hereunder. Such indemnification shall be in addition to any rights of indemnification the person may have as a director, officer or employee or under the Certificate of Incorporation of the Company or the By-Laws of the Company. Expenses incurred by the Committee or the Board of Directors in the engagement of any such counsel, consultant or agent shall be paid by the Company.

#### 5. Participation in the Plan.

Options to purchase the Company's Common Stock under the Plan shall be granted to all Eligible Employees; provided, however, that solely to the extent allowable under Section 423 of the Code, the Committee may determine that any offering of Common Stock under the Plan will not be extended to all or some officers, highly compensated employees of the Employer or to those employees whose principal duties consist of supervising the work of other employees. Any decision relating to the inclusion or exclusion of any executive officer (as defined in Rule 3b-7 promulgated

under the Exchange Act as then in effect or any successor provisions) of the Employer pursuant to this Section shall be made only by the members of the Committee who are not executive officers of the Employer and who have not participated or been eligible to participate in this Plan or any similar employee stock option plan for a period of at least one year prior to such determination.

#### 6. Purchase Price.

The purchase price for Shares purchased pursuant to the Plan shall be determined by the Committee, in its sole discretion, and shall remain in effect unless modified at least thirty (30) days prior to the applicable Offering Date, but in no event shall be less than the lesser of: (i) eighty-five percent (85%) of the Market Price of a Share of Common Stock on the first business day of the Offering Period or (ii) eighty-five (85%) of the Market Price of a Share of Common Stock on the Exercise Date. Effective as of the effective date of the Plan until modified by the Committee, the price per Share of the Common Stock subject to an offering shall be the lesser of: (i) eighty-five percent (85%) of the Market Price of a Share of Common Stock on the first business day of the Offering Period or (ii) eighty-five (85%) of the Market Price of a Share of Common Stock on the Exercise Date.

#### 7. Method of Payment.

Payment for Shares purchased pursuant to the Plan shall be made in installments through payroll deductions, with no right of prepayment.

#### 8. Employee's Election To Purchase. Grants of Options.

(a) In order to participate in the Plan, an Eligible Employee must sign an election to purchase Shares on a form provided by the Company stating the Eligible Employee's desire to purchase Shares under the Plan and showing the amount which the Eligible Employee elects to have withheld from his or her pay for such payroll period during the Purchase Period. The election to purchase Shares must be delivered on or before the last day of the Subscription Period to the person or office designated to receive and accept such elections. An Eligible Employee may increase or decrease such payroll deductions prior to the beginning of any subsequent Subscription Period by giving sufficient prior written notice to the Committee on a form provided by, or acceptable to, the Committee for such purpose. An Eligible Employee may terminate a payroll deduction authorization at any time, upon such written notice to the Committee during such period as designated by the Committee. An authorization shall remain in effect until modified or terminated by the Eligible Employee or until the percentage used to determine the Option price is effectively increased.

(b) All payroll deductions made by a Participant shall be credited to such Participant's account under the Plan. A Participant may not make any additional payments into such account except as otherwise provided herein.

(c) In the event a Participant makes a hardship withdrawal of employee deferral (401(k)) contributions under a 401(k) profit sharing plan of the Company, a Subsidiary, or a Parent or an affiliate or any other plan qualified under Section 401(a) of the Code that contains a Code Section 401(k) feature, to the extent required by such plan, such Participant's payroll deductions and the purchase of Shares under the Plan shall be suspended until the first payroll period following the Offering Date commencing after the twelve (12) month period after such hardship withdrawal. If a Participant who elects a hardship withdrawal under such a 401(k) profit sharing plan or such other plan has a cash balance accumulated in his or her account at the time of withdrawal that has not already been applied to purchase Shares, such cash balance shall be returned to the Participant as soon as administratively practicable.

#### 9. Exercise of Option.

(a) A Participant's election to purchase Shares shall be exercised automatically on the Exercise Date, and the maximum number of whole and/or fractional Shares subject to such Option shall be purchased for such Participant at the applicable Option price with the accumulated payroll deductions in such Participant's account. If all or any portion of the Shares cannot reasonably be purchased on the Exercise Date in the sole discretion of the Committee because of unavailability or any other reason, such purchase shall be made as soon thereafter as feasible. In no event shall certificates for any fractional Shares be issued under the Plan.

(b) If the total number of Shares which would otherwise be subject to Options granted on an Offering Date exceeds the number of Shares then available under the Plan (after deduction of all Shares for which Options have been exercised or are then outstanding), the Committee shall make a pro rata allocation of the Shares remaining available for Option grant in as uniform a manner as shall be practicable and as it shall determine to be equitable. In such event, the Committee shall give written notice to each Participant of such reduction of the number of Option Shares affected thereby and shall similarly reduce the rate of payroll deductions, if necessary.

(c) All Shares included in any offering under the Plan in excess of the total number of Shares which all Participants elect to purchase and all Shares with respect to which elections to purchase are canceled as provided in Section 14 shall continue to be reserved for the Plan and shall be available for inclusion in any subsequent offering under the Plan.

#### 10. Delivery of Common Stock.

(a) Certificates for whole shares of Common Stock shall not be issued to Participants unless and until requested or as otherwise provided herein. Such certificates shall be

issued as soon as administratively feasible following the Participant's request for issuance. If a Participant requests certificates for whole shares of Common Stock, any fractional shares of Common Stock shall remain in the Participant's account during his or her employment, unless he or she requests cash in lieu of the fractional shares. A fee fixed by the Plan's Agent or transfer agent, as the case may be, may be charged to the Participant for the issuance of certificates of shares of Common Stock and for the replacement of lost certificates. Certificates for a fractional share of Common Stock shall not be issued under any circumstance. The Committee of the Plan's Agent may establish limitations on the issuance of certificates to the extent allowable by applicable law.

(b) A Participant may request the Agent to sell all or a portion of Shares for which certificates have not been issued and receive cash for such Shares, subject to any brokerage fees or commissions.

(c) Notwithstanding any other provision of the Plan to the contrary, following a Participant's termination of employment, death or retirement from the Company, any Subsidiary and any Parent, the Participant (or, in the case of death, his or her legal representative) shall elect, within such period as prescribed by the Committee to (i) direct the Committee or Agent to sell all or a portion of Shares for which certificates have not been issued and receive cash for such Shares, subject to any brokerage fees or commissions; (ii) receive certificates for all of the whole Shares and cash in lieu of any fractional Shares credited to the Participant's account under the Plan; or (iii) receive payment from the Plan for all Shares in such other manner permitted by the Committee in its sole discretion, including permitting the transfer of certificates for all Shares (including fractional Shares) credited to the Participant's account under the Plan to an individual brokerage account established by the Agent for the benefit of the Participant or for the benefit of the Participant and his or her spouse as joint tenants with rights of survivorship. The Committee may establish and adopt rules dictating the default election of a Participant (or, in the case of death, his or her legal representative) who does not make a timely election pursuant to this paragraph (c). A fee fixed by the Plan's Agent may be charged to the Participant for the issuance of certificates of Shares.

#### 11. Limitations Of Number Of Shares Which May Be Purchased.

(a) Notwithstanding any provisions of the Plan to the contrary, no individual shall be granted an Option under the Plan:

(i) if, immediately after the grant, such individual (or any other person whose stock would be attributed to such individual pursuant to Section 424(d) of the Code) would own stock and/or hold outstanding Options to purchase stock possessing five percent (5%) or more of the total combined voting power or value of all classes of stock of the Company or of any Subsidiary or Parent; or

(ii) which permits such individual's right to purchase stock under all employee stock purchase plans (as described in Section 423 of the Code) of the Company and any Subsidiary or Parent to accrue at a rate which exceeds twenty-five thousand dollars (\$25,000) of fair market value of such stock (determined at the time such option is granted) for any calendar year in which such option is outstanding at any time; or

(iii) which permits an Eligible Employee to purchase Shares during any one offering pursuant to the Plan for an aggregate purchase price (which shall be computed on an annual basis in the event the Purchase Period is more or less than twelve (12) months) in excess of ten percent (10%) of his or her Annual Pay.

(b) An Eligible Employee may elect to purchase less than the number of Shares which he or she is entitled to elect to purchase.

#### 12. Stockholder Rights.

The Common Stock purchased upon exercise of an Option hereunder shall be credited to the Participant's account under the Plan and shall be deemed to be transferred to the Participant on the Exercise Date. Only upon the issuance of Shares to a Participant or his agent (and only in respect to such Shares purchased) shall a Participant obtain the rights of stockholders, including, without limitation, any right to vote the Shares or receive any dividends or any other distributions thereon. The Shares purchased will be issued as soon as practicable after the Exercise Date.

#### 13. Rights To Purchase Shares Not Transferable.

(a) Neither payroll deductions credited to a Participant's account nor any rights with regard to the exercise of an Option or to receive Shares under the Plan may be sold, pledged, assigned or transferred in any manner otherwise than by will or the laws of descent and distribution. Any such attempt at assignment, transfer, pledge or other disposition shall be without effect, except that the Company may treat such act as an election to withdraw funds in accordance with Section 10 hereof.

(b) All rights of a Participant granted under this Plan, including but not limited to, the grant of an Option, the right to exercise an Option and the ability to authorize payroll deductions shall relate solely to a Participant, except as otherwise provided in Section 17 hereof.

#### 14. Cancellation of Election to Purchase.



(a) An Eligible Employee who has elected to purchase Shares during a Purchase Period may (i) cancel his or her election with respect to such Purchase Period in its entirety or (ii) may partially cancel his or her election with respect to such Purchase Period by reducing the amount which he or she has authorized the Company to withhold from his pay for each payroll period during the Purchase Period. Any such full or partial cancellation shall be effective upon the delivery by the Eligible Employee of sufficient prior written notice of cancellation on a form provided by, or acceptable to, the Committee for such purpose to the office or person designated by the Committee to receive such elections. Such notice of cancellation must be so delivered before the close of business on the Exercise Date. If an Eligible Employee partially cancels his original election by reducing the amount authorized to be withheld from his pay, he or she shall continue to make installment payments at the reduced rate for the remainder of the Purchase Period. Only one partial cancellation may be made during a Purchase Period, unless otherwise determined by the Committee.

(b) An Eligible Employee's rights upon the full or partial cancellation of his or her election to purchase Shares shall be limited to the following:

- (i) to receive in cash, as soon as practicable after delivery of the notice of cancellation, the cash balance (without interest) then credited to his or her account, except, in the case of a partial cancellation, he or she must retain in his or her account the cumulative installment payments made through the date of cancellation until the end of the Purchase Period, or
- (ii) to have the cash balance credited to his account at the time the cancellation becomes effective applied to the purchase of the number of Shares such amount will then purchase at the end of the Purchase Period.

(c) A Participant's cancellation of his or her election to purchase Shares in an offering shall not have any effect upon such Participant's eligibility to participate in a subsequent offering or in any similar plan which may hereafter be adopted by the Company.

#### 15. Leave of Absence or Layoff.

(a) A Participant who is granted a leave of absence (including a military leave) or is laid off during a Purchase Period may at that time (on a form provided by the Company) elect within such period prescribed by the Committee, one of the following:

- (i) to suspend payments during the leave of absence, or, in the case of a layoff, he or she may suspend payments for not more than ninety (90) days, but not in either case beyond the last month of the Purchase Period, or

(ii) to cancel his election in accordance with Section 14.

(b) If the option described in subparagraph (i) of paragraph (a) above is elected by the Participant, the Participant at the end of the suspension period must make up the deficiency in his account either by immediate lump sum payment or with installment payments so that, assuming the maximum purchase price per Share, payment for the maximum number of Shares covered by his option will be completed in the last month of the Purchase Period. If the Participant elects to make increased installment payments, he or she may, nevertheless, at any time make up his or her remaining deficiency by making a lump sum payment.

(c) If a Participant does not return to active service upon the expiration of his or her leave of absence or within ninety (90) days from the date of his or her layoff, his or her election to purchase shall be deemed to have been canceled at the time of the leave of absence or layoff. In the event that such individual's leave of absence ends and such individual again becomes as an Eligible Employee, payroll deductions shall resume automatically in accordance with his or her most recent payroll deduction authorization form in effect prior to the leave of absence, unless he or she elects otherwise.

(d) Notwithstanding any other provision in this Section 15 to the contrary, in no event shall a Participant be permitted to complete payment for any Shares after twenty-seven (27) months from the date of the commencement of the Subscription Period.

#### 16. Effect of Failure To Make Payments When Due.

(a) If in any payroll period, for any reason not set forth in Section 14, a Participant who has filed an election to purchase Shares under the Plan has no pay or his or her pay is insufficient (after other authorized deductions) to permit deduction of his or her installment payment, the Participant may make a payment to the Plan in cash at such time equal to the amount of the installment payment deficiency. If such cash payment is not so made, the Participant, when his or her pay is again sufficient to permit the resumption of installment payments, must pay in cash the amount of the deficiency in his or her account or arrange for uniformly increased installment payments so that, assuming the maximum purchase price per Share, payment for the maximum number of Shares covered by his or her Option will be completed in the last month of the Purchase Period. If the Participant elects to make increased installment payments, he or she may, nevertheless, at any time make up the remaining deficiency by making a lump sum payment.

(b) Subject to paragraph (a) above and other provisions of the Plan permitting postponement, the Company may treat the failure by a Participant to make any payment as a cancellation of his or her election to purchase Shares. Such cancellation will be affected by mailing notice to him or her at his or her last known business or home address. Upon such mailing, his or her only right will be to receive in cash the amount credited to his or her account.

17. Retirement.

(a) If a Participant officially retires, as determined by the Committee, at such time that he or she has an election to purchase Shares in effect, he or she may, within three (3) months after the date of his or her retirement date (but in no event later than the end of the Purchase Period), by delivering written notice to the office or person designated to receive elections within such time period as prescribed by the Committee, elect to:

- (i) Complete the remaining installment payments in cash,
- (ii) Make a lump sum payment in the amount of any deficiency for the remaining portion of the Purchase Period, or
- (iii) Cancel his or her election to purchase Shares in accordance with the provisions of Section 14.

If no such notice is given within such period, the election will be deemed canceled as of the date of retirement and the only right of the Participant will be to receive in cash, the cash amount credited to his or her account.

18. Death.

If a Participant, including a retired Participant, dies and has an election to purchase Shares in effect at the time of his or her death, the legal representative of the deceased a Participant may, within three (3) months from the date of death (but in no event later than the end of the Purchase Period), by delivering written notice on a form prescribed by the Committee to the office or person designated to receive elections within such time period as prescribed by the Committee, elect to:

- (a) Complete the remaining installment payments in cash,
- (b) Make a lump sum payment in the amount of any deficiency for the remaining portion of the Purchase Period, or
- (c) Cancel the election to purchase Shares in accordance with the provisions of Section 14.

If no such notice is given within such period, the election will be deemed canceled as of the date of death, and the only right of such legal representative will be to receive in cash the amount credited to the deceased Eligible Employee's account.

19. Termination of Employment Other Than For Retirement Or Death.

If an Eligible Employee's employment is terminated for any reason other than retirement or death prior to the end of the Purchase Period, his or her election to purchase shall thereupon be deemed canceled as of the date on which his or her employment ended. In such an event, no further payments under such election will be permitted, and the Eligible Employee's only right will be to receive in cash the amount credited to his or her account.

20. Dividends and Interest.

(a) Cash dividends, if any, on Shares acquired through the Plan will be automatically paid by check directly to the Participant by the Company, or if applicable, the transfer agent. Dividends paid in property other than cash or Common Stock shall be distributed to Participants as soon as practicable.

(b) Except as required by law, including without limitation, the Investment Company Act of 1940, as amended, no interest shall accrue on or be payable with respect to the payroll deductions of a Participant in the Plan.

21. Application of Funds.

All funds received by the Company in payment for Shares purchased under the Plan and held by the Company at any time may be used for any valid corporate purpose.

22. Amendment and Termination.

The Company, by action of the Board of Directors (or a duly authorized committee) or the Committee may at any time terminate, amend or freeze the Plan. No such termination shall adversely affect Options previously granted and no amendment may make any change in any Option theretofore granted which adversely affects the rights of any Participant. No amendment shall be effective unless approved by the stockholders of the Company if stockholder approval of such amendment is required to comply with Section 423 of the Code or to comply with any other applicable law, regulation or stock exchange rule. Upon termination of the Plan, the Company shall return or distribute the payroll deductions credited to a Participant's account (that have not been used to purchase Shares) and shall distribute or credit Shares credited to a Participant's account. Upon the freezing of the Plan, any payroll deductions credited to a Participant's account (that have not been used to purchase Shares) shall be used to purchase Shares in accordance with Section 9, substituting the term Exercise Date with the effective date of the freezing of the Plan.

### 23. Reports.

Individual accounts shall be maintained for each Participant in the Plan. Statements of account shall be given to Participants at such times prescribed by the Committee; such statements shall set forth the amounts of payroll deductions, the purchase price per Share, the number of Shares purchased, the aggregate Shares in the Participant's account and the remaining cash balance, if any.

### 24. Effective Date; Governmental Approvals or Consents.

The Plan is adopted, effective upon January 1, 1999, subject to the approval of the Plan by stockholders of the Company, to the extent required by Section 423 of the Code, in accordance with the Company's Certificate of Incorporation then in effect and applicable state law, within twelve (12) months before or after the Plan is adopted by the Board of Directors. The Plan and any offerings and sales to Eligible Employees under it are subject to any governmental approvals or consents that may be or become applicable in connection therewith. The Board of Directors or the Committee may make such changes in the Plan and include such terms in any offering under the Plan as may be necessary or desirable, in the opinion of counsel, so that the Plan will comply with the rules and regulations of any governmental authority and so that Eligible Employees participating in the Plan will be eligible for tax benefits under the Code or the laws of any state.

### 25. Notices.

All notices or other communications by a Participant to the Company or the Committee under or in connection with the Plan shall be deemed to have been duly given when received in the form specified by the Company or Committee at the location, or by the person, designated for the receipt thereof and within the time period prescribed by the Company or Committee. Each Participant shall be responsible for furnishing the Committee with the current and proper address for the mailing of notices and the delivery of other information. Any notices or communications by the Company to a Participant shall be deemed given if directed to such address and mailed by regular United States mail, first-class and prepaid. If any item mailed to such address is returned as undeliverable to the addressee, mailing shall be suspended until the Participant furnishes the proper address.

### 26. Regulations and Other Approvals; Governing Law.

(a) This Plan and the rights of all persons claiming hereunder shall be construed and determined in accordance with the laws of the State of Delaware without giving effect to the choice of law principles thereof, except to the extent that such law is preempted by federal law.

(b) The obligation of the Company to sell or deliver Shares with respect to Options granted under the Plan shall be subject to all applicable laws, rules and regulations,

including all applicable federal and state securities laws, and the obtaining of all such approvals by governmental agencies as may be deemed necessary or appropriate by the Committee.

(c) To the extent required, the Plan is intended to comply with Rule 16b-3 and the Committee shall interpret and administer the provisions of the Plan in a manner consistent therewith. Any provisions inconsistent with Rule 16b-3 shall be inoperative and shall not affect the validity of the Plan. The Committee may establish and adopt administrative guidelines, designed to facilitate compliance with Section 16(b) of the Exchange Act and Rule 16b-3, as it may deem necessary or proper for the administration and operation of the Plan and the transaction of business thereunder.

#### 27. Withholding of Taxes.

(a) If the Participant makes a disposition, within the meaning of Section 424(c) of the Code and regulations promulgated thereunder, of any Share or Shares issued to such Participant pursuant to such Participant's exercise of an Option, and such disposition occurs within the two-year period commencing on the day after the Offering Date or within the one-year period commencing on the day after the Exercise Date, such Participant shall immediately, or as soon as practicable thereafter, notify the Company thereof and thereafter immediately deliver to the Company any amount of federal, state or local income taxes and other amounts which the Company informs the Participant the Company is required to withhold.

(b) Notwithstanding anything herein to the contrary, the Employer shall have the right to make such provisions as it deems necessary to satisfy any obligations to withhold federal, state, or local income taxes or other taxes incurred by reason of the issuance of Common Stock pursuant to the Plan. Notwithstanding anything herein to the contrary, the Employer may require a Participant to remit an amount equal to the required withholding amount and may invalidate any election if the Participant does not remit applicable withholding taxes. Without limiting the generality of the foregoing, any withholding obligation with regard to any Participant may be satisfied by: (i) reducing the number of shares of Common Stock otherwise deliverable to the Participant; (ii) subject to the Committee's prior consent, any method approved by the Committee; or (iii) by the Participant paying cash directly to the Company.

#### 28. Legend.

(a) The Committee may require each person receiving shares pursuant to the exercise of an Option under the Plan to represent to and agree with the Company in writing that the Participant is acquiring the shares without a view to distribution thereof. In addition to any legend required by this Plan, the certificates for such Shares may include any legend which the Committee deems appropriate to reflect any restrictions on transfer.

(b) All certificates for Shares delivered under the Plan shall be subject to such stock transfer orders and other restrictions as the Committee may deem advisable to assist in the compliance with any applicable tax withholding laws or under the rules, regulations and other

requirements of the Securities and Exchange Commission, any stock exchange upon which the Common Stock is then listed or any national securities association system upon whose system the Common Stock is then quoted, any applicable Federal or state securities law, and any applicable corporate law and the Committee may cause a legend or legends to be put on any such certificates to make appropriate reference to such restrictions.

29. No Employment Rights.

The establishment and operation of this Plan shall not confer any legal rights upon any Participant or other person for a continuation of employment, nor shall it interfere with the rights of an Employer to discharge any employee and to treat him or her without regard to the effect which that treatment might have upon him or her as a Participant or potential Participant under the Plan.

30. Severability of Provisions.

If any provision of the Plan shall be held invalid or unenforceable, such invalidity or unenforceability shall not affect any other provisions hereof, and the Plan shall be construed and enforced as if such provisions had not been included.

31. Construction.

The use of a masculine pronoun shall include the feminine, and the singular form shall include the plural form, unless the context clearly indicates otherwise. The headings and captions herein are provided for reference and convenience only, shall not be considered part of the Plan, and shall not be employed in the construction of the Plan.

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PROPOSED FORM OF  
SCHOLASTIC CORPORATION  
MANAGEMENT STOCK PURCHASE PLAN

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E-2

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SCHOLASTIC CORPORATION  
MANAGEMENT STOCK PURCHASE PLAN

Article 1 - Introduction

The purpose of the Scholastic Corporation Management Stock Purchase Plan (the "Plan") is to provide equity incentive compensation to selected management employees of Scholastic Corporation and its Affiliates. Participants in the Plan receive restricted stock units at a discount in lieu of a portion or all of their bonus awards under the Company's annual incentive plan. Under certain circumstances, the restricted stock units convert into shares of Common Stock. The Company believes that the Plan creates a means to provide deferred compensation to such selected management employees and to raise the level of stock ownership in the Company by such employees thereby strengthening the mutuality of interests between such employees and the Company's stockholders.

Article 2 - Definitions

- 2.1 Affiliate - (i) any corporation, partnership, limited liability company or other entity as to which the Company possesses a direct or indirect ownership interest of at least fifty (50) percent or which possesses a direct or indirect ownership interest of at least 50% in the Company including, without limitation, any subsidiary corporation (as defined in Section 424(f) of the Code) and parent corporation (as defined in Section 424(e) of the Code) and (ii) any other entity in which the Company or any of its Affiliates has a material equity interest, as determined by the Committee.
- 2.2 Award Date - the date a Bonus for a year is paid or otherwise would be paid.
- 2.3 Award Value - the Fair Market Value of a share of Common Stock on the Award Date.
- 2.4 Beneficiary - a Beneficiary or Beneficiaries designated by the Participant under Article 9.

- 2.5 Bonus - a Participant's annual award for a Fiscal Year under the Company's Annual Incentive Plan.
- 2.6 Board of Directors - the Board of Directors of the Company or the Executive Committee of such Board of Directors.
- 2.7 Cause - any of the following: (i) any act or acts by the Participant constituting a felony under the laws of the United States, any state, thereof or any political subdivision thereof; (ii) the Participant's willful and continued failure to perform the duties assigned to him or her as an employee or consultant of the Company or Affiliate; (iii) any material breach by the Participant of any employment or consulting agreement with the Company or Affiliate; (iv) dishonesty, gross negligence or malfeasance by the Participant in the performance of his or her duties as an employee or consultant of the Company or Affiliate or any conduct by the Participant which involves a material conflict of interest with any business of the Company or Affiliate; or (v) the taking or knowingly omitting to take any other action or actions in the performance of the Participant's duties as an employee or consultant of the Company or Affiliate without informing appropriate members of management to whom such Participant reports, which action or actions, in the determination of the Committee, have caused or substantially contributed to the material deterioration in the business of the Company and its Affiliates, taken as a whole.
- 2.8 Code - the Internal Revenue Code of 1986, as amended from time to time.
- 2.9 Committee - the committee of the Board of Directors authorized to administer the Plan. To the extent that no Committee exists which has the authority to administer the Plan, the functions of the Committee shall be exercised by the Board of Directors. The Committee shall consist of two or more non-employee directors, each of whom is intended to be, to the extent required by Rule 16b-3, a "non-employee director" as defined in Rule 16b-3. If for any reason the appointed

Committee does not meet the requirements of Rule 16b-3, such noncompliance shall not affect the validity of any grants of RSUs hereunder, interpretations or other actions of the Committee.

- 2.10 Common Stock or Stock - Common Stock of the Company, par value \$.01 per share.
- 2.11 Company - Scholastic Corporation, a corporation organized under the laws of the State of Delaware (or any successor).
- 2.12 Cost - the cost of purchasing an RSU under the Plan as of an Award Date, as determined by the Committee in its sole discretion, but in no event less than eighty-five (85) percent of the Fair Market Value of a share of Common Stock on the Award Date. The cost shall be established as of the applicable Award Date and shall remain in effect unless modified by the Committee at least thirty (30) days prior to the applicable Award Date. Effective as of the effective date of the Plan until modified by the Committee, the Cost shall be eighty-five (85) percent of the Fair Market Value of a share of Common Stock on the Award Date.
- 2.13 Deferral Period - a period of time (expressed in whole years) not less than three years beginning on an Award Date as specified by the Participant in his or her Subscription Agreement with respect to RSUs awarded on that Award Date, provided however, that the Committee may establish, in its sole discretion, a fixed date as the end of the Deferral Period or fixed period specified with respect to RSUs awarded on that Award Date.
- 2.14 Disability - complete and permanent inability by reason of illness or accident to perform the duties of the occupation at which the Participant was employed when such disability commenced, as determined by the Committee based on medical evidence available to it.
- 2.15 Exchange Act - the Securities Exchange Act of 1934, as amended.
- 2.16 Fair Market Value - unless otherwise required by any applicable provision of the Code or any regulations issued thereunder, as of any date, the last sales price reported for the Common Stock on the applicable date: (i) as reported on the principal national securities exchange on which it is

then traded on the Nasdaq Stock Market, Inc. or (ii) if not traded on any such national securities exchange or the Nasdaq Stock Market, Inc. as quoted on an automated quotation system sponsored by the National Association of Securities Dealers, Inc. If the Common Stock is not readily tradable on a national securities exchange, the Nasdaq Stock Market, Inc. or any automated quotation system sponsored by the National Association of Securities Dealers, Inc., its Fair Market Value shall be set in good faith by the Committee.

- 2.17 Fiscal Year - the fiscal year of the Company.
- 2.18 Foreign Jurisdiction - any jurisdiction outside of the United States including, without limitation, countries, states, provinces and localities.
- 2.19 Participant - a management employee of the Company or any Affiliate who satisfies the eligibility requirements under Article 5 of the Plan and elects to participate in the Plan in accordance with its terms.
- 2.20 Plan - the Scholastic Corporation Management Stock Purchase Plan, as amended from time to time.
- 2.21 Plan Year - the Fiscal Year, except that the first Plan Year shall be the short year beginning on the effective date of the Plan and ending on May 31, 1999.
- 2.22 Retirement - termination of employment with the Company and all Affiliates on or after age fifty-five (55).
- 2.23 Rule 16b-3 - means Rule 16b-3 promulgated under Section 16(b) of the Exchange Act or any successor provision.
- 2.24 RSU - a unit of measurement equivalent to one share of Common Stock but with none of the attendant rights of a stockholder of a share of Common Stock, including the right to vote (if any); except that an RSU shall have the dividend right described in Article 8. The fair market value of

an RSU on any date shall be deemed to be the Fair Market Value of a share of Common Stock on that date.

- 2.25 Subscription Agreement - an agreement executed by a Participant setting forth his or her election to defer receipt of a portion or all of his or her Bonus for the Deferral Period and to authorize the Company to credit such amount to the Plan in order to purchase an award of RSUs. A Subscription Agreement shall contain such provisions, consistent with the provisions of the Plan, as may be established from time to time by the Company or Committee.

#### Article 3 - Shares Reserved

The aggregate number of shares of Common Stock reserved for issuance pursuant to the Plan or with respect to which RSUs may be granted shall be 150,000, subject to adjustment as provided in Article 10 hereof.

Such number of shares may be set aside out of the authorized but unissued shares of Common Stock not reserved for any other purpose, or out of issued shares of Common Stock acquired for and held in the treasury of the Company. If any RSU awarded under the Plan is forfeited, terminated or canceled for any reason, the share of Common Stock relating to such RSU shall again be available under the Plan. If Common Stock has been exchanged by a Participant as full or partial payment to the Company for withholding taxes or otherwise or if the number of shares of Common Stock otherwise deliverable has been reduced for withholding, the number of shares exchanged or reduced shall again be available under the Plan.

#### Article 4 - Administration

- 4.1 The Plan shall be administered by the Committee. The Committee may select an administrator or any other person to whom its duties and responsibilities hereunder may be delegated. The

Committee shall have full power and authority, subject to the provisions of the Plan, to promulgate such rules and regulations as it deems necessary for the proper administration of the Plan, to interpret the provisions and supervise the administration of the Plan, and to take all actions in connection therewith or in relation thereto as it deems necessary or advisable. The Committee may adopt special guidelines and provisions for persons who are residing in, or subject to the laws of, Foreign Jurisdictions to comply with applicable tax and securities laws. All interpretations and determinations of the Committee shall be made in its sole and absolute discretion based on the Plan document and shall be final, conclusive and binding on all parties with respect to all matters relating to the Plan.

- 4.2 The Committee may employ such legal counsel, consultants, brokers and agents as it may deem desirable for the administration of the Plan and may rely upon any opinion received from any such counsel or consultant and any computation received from any such consultant, broker or agent. The Committee may, in its sole discretion, designate an agent to administer the Plan, keep records, send statements of account to Participants and to perform other duties relating to the Plan, as the Committee may request from time to time. The Committee may adopt, amend or repeal any guidelines or requirements necessary for the delivery of the Common Stock.
- 4.3 The Company shall, to the fullest extent permitted by law and the Certificate of Incorporation and By-laws of the Company and, to the extent not covered by insurance, indemnify each director, officer or employee of the Company and its Affiliates (including the heirs, executors, administrators and other personal representatives of such person) and each member of the Committee against all expenses, costs, liabilities and losses (including attorneys' fees, judgments, fines, excise taxes or penalties, and amounts paid or to be paid in settlement) actually and reasonably incurred by such person in connection with any threatened, pending or actual suit, action or proceeding (whether civil, criminal, administrative or investigative in nature or

otherwise) in which such person may be involved by reason of the fact that he or she is or was serving this Plan in any capacity at the request of the Company, except in instances where any such person engages in willful neglect or fraud. Such right of indemnification shall include the right to be paid by the Company for expenses incurred or reasonably anticipated to be incurred in defending any such suit, action or proceeding in advance of its disposition; provided, however, that the payment of expenses in advance of the settlement or final disposition of a suit, action or proceeding, shall be made only upon delivery to the Company of an undertaking by or on behalf of such person to repay all amounts so advanced if it is ultimately determined that such person is not entitled to be indemnified hereunder. Such indemnification shall be in addition to any rights of indemnification the person may have as a director, officer or employee or under the Certificate of Incorporation of the Company or the By-Laws of the Company. Expenses incurred by the Committee or the Board in the engagement of any such counsel, consultant or agent shall be paid by the Company.

#### Article 5 - Eligibility

Management employees of the Company and its Affiliates as designated by the Committee shall be eligible to participate in the Plan. Eligibility for participation in the Plan shall be determined by the Committee in its sole discretion. The Committee may, in its sole discretion, designate, on a prospective basis, any Participant in the Plan as ineligible to receive awards of RSUs pursuant to Article 6 of the Plan.

#### Article 6 - Purchases

##### 6.1 General

Each Participant shall be entitled to elect to receive up to one hundred (100) percent of his or her Bonus as an award of RSUs. As of the applicable Award Date, RSUs shall be awarded to

Participants and credited to accounts held under the Plan on behalf of Participants on a book entry basis calculated in the manner provided under Section 6.3.

## 6.2 Voluntary Purchases

No later than the last day of the first quarter of each Fiscal Year, each Participant may elect to receive up to one hundred (100) percent of his or her Bonus for that Fiscal Year as an award of RSUs by completing a Subscription Agreement. Notwithstanding the foregoing, for the first Plan Year, a Participant may elect to participate in the Plan for that Plan Year no later than the date set by the Committee in its sole discretion pursuant to procedures set by the Committee. If an employee of the Company or an Affiliate first becomes eligible to participate hereunder during a Plan Year, such employee may elect to participate in the Plan for that Plan Year pursuant to procedures established by the Committee (solely with respect to the pro rata portion of the Bonus earned after the Subscription Agreement is executed and delivered to the Company). The Subscription Agreement shall provide that the Participant elects to receive RSUs in lieu of a specified portion of his or her Bonus. Such portion may be expressed as either:

- (a) a specified percentage of up to one hundred (100) percent (in whole percentages) of the Participant's actual Bonus amount;
- (b) a specified dollar amount, up to one hundred (100) percent of the Participant's actual Bonus amount;
- (c) the lesser of the amount specified in Section 6.2(a) or (b).

Amounts specified pursuant to any of the methods set forth herein are entirely contingent on, and are limited to, the amount of Bonus actually awarded. Each Subscription Agreement, in addition, shall specify a Deferral Period with respect to the RSUs to which it pertains. The Committee may, in its sole discretion, permit the Deferral Period with respect to the RSUs to which it pertains to be changed upon one year's notice to the Committee. Other than with respect to the



first Plan Year or with respect to an employee of the Company or an Affiliate who first becomes eligible to participate hereunder during a Plan Year, Subscription Agreements must be received by the Company no later than the last day of the first quarter of the Fiscal Year for which such Bonus amount will be determined. With respect to any Plan Year, an election to receive RSUs in lieu of a portion or all of a Bonus hereunder pursuant to a Subscription Agreement is irrevocable on and after the date the Subscription Agreement must be submitted to the Company and is valid solely for the Plan Year to which the election relates. If no new Subscription Agreement is timely made with respect to any subsequent Plan Year, the Bonus earned in such Plan Year shall not be deferred under the Plan.

### 6.3 Award of RSUs

The Company shall award RSUs to each Participant's account under the Plan on the Award Date. Each Participant's account shall be credited with a number of RSUs (in whole and fractional RSUs) determined by dividing (a) the amount of the Participant's Bonus to be received as an award of RSUs in accordance with the Participant's Subscription Agreement and the methodology under Section 6.2 by (b) the Cost of a share of Common Stock on the Award Date.

## Article 7 - Vesting and Payment of RSUs

### 7.1 Vesting

A Participant shall be fully vested in each RSU three years after the Award Date pertaining to that RSU (provided that the Participant is continuously employed (including any period during which the Participant is on a leave of absence, either paid or unpaid, which is approved by the Committee, or any other break in employment which is approved by the Committee) by the Company or any Affiliate for such years) or, if earlier, upon death while employed, Disability while employed or Retirement. The Committee may, in its sole discretion, accelerate (in whole or part) the time at which any such RSUs may be vested, based on such factors, if any, as the Committee shall determine in its sole discretion.

### 7.2 Payment on or after Vesting

With respect to each vested RSU, the Company shall issue to the Participant one share of Common Stock and/or cash in lieu of any fractional RSU as soon as practicable after the end of the Deferral Period specified in the Participant's Subscription Agreement pertaining to such RSU, or, if earlier, the Participant's termination of employment with the Company and its Affiliates or the termination of the Plan.

### 7.3 Payment Prior to Vesting

- (a) Voluntary Termination. If a Participant voluntarily terminates his or her employment with the Company and its Affiliates for reasons other than death, Disability or is involuntarily terminated by the Company or an Affiliate for Cause, the Participant's nonvested RSUs shall be canceled, and he or she shall receive as soon as practicable after his or her termination of employment with the Company and its Affiliates a cash payment equal to the lesser of:

- i) an amount equal to the number of those nonvested RSUs awarded on each Award Date multiplied by the respective Cost of those RSUs; or
  - ii) an amount equal to the number of those nonvested RSUs awarded on each Award Date multiplied by the Fair Market Value of a share of Common Stock on the date of the Participant's termination of employment with the Company and its Affiliates.
- (b) Involuntary Termination. If a Participant's employment is terminated by the Company or an Affiliate for any reason other than Cause, the Participant's nonvested RSUs shall be canceled and he or she shall receive payment as soon as practicable following his or her termination of employment with the Company and its Affiliates as described below:
- i) The number of nonvested RSUs awarded on each Award Date shall be multiplied by a fraction, the numerator of which that is the number of full years that the Participant was employed by the Company or any Affiliate after that Award Date and the denominator of which is three; and the Participant shall receive the resulting number of such RSUs in shares of Common Stock, with any fractional RSU paid in cash.
  - ii) With respect to the Participant's remaining nonvested RSUs, the Participant shall receive cash in an amount equal to the lesser of: (A) the number of such nonvested RSUs awarded on each Award Date multiplied by the respective Cost of those RSUs; or (B) the number of those nonvested RSUs awarded on each Award Date multiplied by the Fair Market Value of a share of Common Stock on the date of the Participant's termination of employment with the Company and its Affiliates.

- (c) Committee's Discretion. The Committee shall have complete discretion to determine the circumstances of a Participant's termination of employment with the Company and its Affiliates, including whether the same results from voluntary termination, Disability, Retirement, death or termination by the Company for or not for Cause, and the Committee's determination shall be final and binding on all parties and not subject to review or challenge by any Participant or other person.

#### Article 8 - Dividend Equivalent Amounts

Whenever dividends (other than dividends payable only in shares of Common Stock) are paid with respect to shares of Common Stock, each Participant shall be paid an amount in cash equal to the number of his or her vested RSUs multiplied by the dividend value per share. Dividends (other than dividends payable only in shares of Common Stock) shall not be credited or paid with respect to each Participant's nonvested RSUs.

#### Article 9 - Designation of Beneficiary

A Participant may designate one or more Beneficiaries to receive payments or shares of Common Stock in the event of his or her death. A designation of Beneficiary shall apply to a specified percentage of a Participant's entire interest in the Plan. Such designation, or any change therein, must be in writing in a form acceptable to the Company and shall be effective upon receipt by the Company. If there is no effective designation of Beneficiary, or if no Beneficiary survives the Participant, the Participant's estate shall be deemed to be the Beneficiary.

## Article 10 - Adjustments

In the event of a stock dividend, stock split, reverse stock split, combination or reclassification of shares, recapitalization, merger, consolidation, exchange, spin-off or otherwise which affects Common Stock, the Committee shall make appropriate equitable adjustments in:

- (a) the number or kind of shares of Common Stock or securities with respect to which RSUs shall thereafter be granted;
- (b) the number and kind of shares of Common Stock remaining subject to outstanding RSUs;
- (c) the number of RSUs credited to each Participant; and
- (d) the method of determining the value of RSUs.

## Article 11 - Amendment or Termination of Plan

The Company reserves the right to amend, terminate or freeze the Plan at any time, by action of its Board of Directors (or a duly authorized committee thereof ) or the Committee, provided that no such action shall adversely affect a Participant's rights under the Plan with respect to RSUs awarded and vested before the date of such action. No amendment shall be effective unless approved by the stockholders of the Company if stockholder approval of such amendment is required to comply with any applicable law, regulation or stock exchange rule. Upon termination of the Plan, any vested RSU shall be paid in accordance with Section 7.2 of the Plan and any nonvested RSU shall be canceled and paid in accordance with Section 7.3(b) of the Plan except that such amount shall be paid as soon as administratively practicable following the Plan termination. Upon freezing of the Plan, all vested RSUs awarded prior to freezing shall continue to be held under the Plan until the Deferral Period expires and all nonvested RSUs awarded prior to freezing shall vest or become canceled in accordance with the terms of the Plan.

## Article 12 - Miscellaneous Provisions

### 12.1 No Distribution; Compliance with Legal Requirements

The Committee may require each person acquiring shares of Common Stock under the Plan to represent to and agree with the Company in writing that such person is acquiring the shares without a view to distribution thereof. No shares of Common Stock shall be issued until all applicable securities law and other legal and stock exchange requirements have been satisfied. The Committee may require the placing of such stop-orders and restrictive legends on certificates for Common Stock as it deems appropriate.

### 12.2 Withholding

Participation in the Plan is subject to any required tax withholding on wages or other income of the Participant in connection with the Plan. Each Participant agrees, by entering the Plan, that the Company or the Affiliate employing the Participant shall have the right to deduct any federal, state or local income taxes or other taxes, in its sole discretion, from any amount payable to the Participant under the Plan or from any payment of any kind otherwise due to the Participant. Upon the vesting of the RSUs, prior to the issuance or delivery of shares of Common Stock or the payment of any cash hereunder, a Participant shall pay all required withholding to the Company and, if applicable, an Affiliate. Without limiting the generality of the foregoing, any withholding obligation with regard to any Participant may be satisfied by: (i) reducing the number of shares of Common Stock otherwise deliverable to the Participant, (ii) subject to the Committee's prior consent, any method approved by the Committee which may include the Participant delivering shares of Common Stock already owned for at least six months (or such other period to avoid an accounting charge against the Company's earnings) and held free and clear of all encumbrances to the Company; or (iii) by the Participant paying cash directly to the Company.

### 12.3 Notices; Delivery of Stock Certificates

Any notice required or permitted to be given by the Company or the Committee pursuant to the Plan shall be deemed given when personally delivered or deposited in the United States mail, registered or certified, postage prepaid, addressed to the Participant at the last address shown for the Participant on the records of the Company. Delivery of stock certificates to persons entitled to receive them under the Plan shall be deemed effected for all purposes when the Company or a share transfer agent of the Company shall have deposited such certificates in the United States mail, addressed to such person at his/her last known address on file with the Company.

#### 12.4 Nontransferability of Rights

During a Participant's lifetime, any payment or issuance of shares under the Plan shall be made to him or her otherwise than by will or the laws of descent and distribution. No RSU or other interest under the Plan shall be subject in any manner to anticipation, alienation, sale, transfer, assignment, pledge, encumbrance, garnishment, execution, levy or charge, and any attempt by a Participant or any Beneficiary under the Plan to do so shall be void. No interest under the Plan shall in any manner be liable for or subject to the debts, contracts, liabilities, engagements or torts of a Participant or Beneficiary entitled thereto.

#### 12.5 Obligations Unfunded and Unsecured

The Plan shall at all times be entirely unfunded, and no provision shall at any time be made with respect to segregating assets of the Company (including Common Stock) for payment of any amounts or issuance of any shares of Common Stock hereunder. No Participant or other person shall own any interest in any particular assets of the Company or any Affiliate (including Common Stock) by reason of the right to receive payment under the Plan, and any Participant or other person shall have only the rights of a general unsecured creditor of the Company with respect to any rights under the Plan. Nothing contained in this Plan and no action taken pursuant to the provisions of this Plan shall create or be construed to create a trust of any kind, or a

fiduciary relationship amongst the Company, any Affiliate, the Committee, and the Participants, their designated Beneficiaries or any other person. Any funds which may be invested under the provisions of this Plan shall continue for all purposes to be part of the general funds of the Company and no person other than the Company shall by virtue of the provisions of this Plan have any interest in such funds. If the Company decides to establish any accrued reserve on its books against the future expense of benefits payable hereunder, or if the Company establishes a rabbi trust under this Plan, such reserve or trust shall not under any circumstances be deemed to be an asset of the Plan.

#### 12.6 Governing Law

The Plan is established in order to provide deferred compensation to a select group of management and highly compensated employees within the meanings of Sections 201(2) and 301(a)(3) of the Employee Retirement Income Security Act of 1974, as amended ("ERISA"). To the extent legally required, the Code and ERISA shall govern the Plan and, if any provision hereof is in violation of any applicable requirement thereof, the Company reserves the right to retroactively amend the Plan to comply therewith. To the extent not governed by the Code and ERISA, the terms of the Plan shall be governed, construed, administered and regulated in accordance with the laws of Delaware. In the event any provision of this Plan shall be determined to be illegal or invalid for any reason, the other provisions shall continue in full force and effect as if such illegal or invalid provision had never been included herein.

#### 12.7 Claims Procedure

A Participant or Beneficiary shall make any claim (and, in the case of the denial of such claim, any appeal) in writing to the Committee or such other person designated by the Committee in accordance with the claims procedure established by the Committee, which is intended to comply



with the claims procedure provided under ERISA and U.S. Department of Labor Regulation ss. 2560.503-1.

#### 12.8 Rule 16b-3

To the extent required, the Plan is intended to comply with Rule 16b-3 and the Committee shall interpret and administer the provisions of the Plan in a manner consistent therewith. If a management employee is designated by the Committee to participate hereunder, any election to receive an award of RSUs shall be deemed approved by such Committee and shall be deemed an exempt purchase under Rule 16b-3. Any provisions inconsistent with Rule 16b-3 shall be inoperative and shall not affect the validity of the Plan.

#### 12.9 No Employment Rights

The establishment and operation of this Plan shall not confer any legal rights upon any Participant or other person for a continuation of employment, nor shall it interfere with the rights of the Company or Affiliate to discharge any employee and to treat him or her without regard to the effect which that treatment might have upon him or her as a Participant or potential Participant under the Plan.

#### 12.10 Severability of Provisions

If any provision of the Plan shall be held invalid or unenforceable, such invalidity or unenforceability shall not affect any other provisions hereof, and the Plan shall be construed and enforced as if such provisions had not been included

#### 12.11 Construction

The use of a masculine pronoun shall include the feminine, and the singular form shall include the plural form, unless the context clearly indicates otherwise. The headings and captions herein are provided for reference and convenience only, shall not be considered part of the Plan, and shall not be employed in the construction of the Plan.

#### 12.12 Effective Date of Plan

The Plan is adopted, effective upon January 1, 1999, subject to approval of the stockholders of the Company as provided under applicable law, regulation or stock exchange rule.

## [Scholastic Corporation Letterhead]

November 16, 1998

Dear Stockholders:

The purpose of this letter is to describe the key terms of two new programs for employees of Scholastic Corporation (the "Company") and certain affiliates. As described in the Company's Proxy Statement for the 1998 annual meeting of stockholders, the Human Resources and Compensation Committee (the "HRCC") of the Board of Directors of the Company (the "Board"), with the assistance of a consulting firm, recently reviewed the Company's general compensation philosophy and overall compensation programs and recommended to the Board two new programs - - the Scholastic Corporation 1998 Employee Stock Purchase Plan (the "Employee Plan") and the Scholastic Corporation Management Stock Purchase Plan (the "Management Plan;" the Employee Plan and the Management Plan are collectively referred to as the "Plans"). The Board approved the Plans on September 16, 1998.

The Plans are generally designed to encourage broad-based employee stock ownership by enabling eligible employees of the Company and certain designated subsidiaries to purchase Common Stock, \$.01 par value ("Common Stock"), directly from the Company. It is hoped that the Plans will enable employees to have a closer identification with the Company by virtue of their ability as stockholders to participate in the Company's growth and earnings.

The Plans must be approved by the holders of the Company's Class A Stock before they become effective. Following the release of this letter, the Company will seek approval of the Plans by unanimous written consent of the holders of Class A Stock which is intended to be sought before December 1, 1998. Although only holders of Class A Stock have the right to vote to approve the Plans, the Board believes that it is important that all of the Company's stockholders be provided, for their information, the opportunity to become acquainted with the key terms of the Plans. Accordingly, below are summaries of the Plans.

## 1. Employee Plan

## E-3

The Employee Plan allows eligible employees to purchase Common Stock at a discount through payroll deductions. The Employee Plan is intended to qualify as an "employee stock purchase plan" under Section 423 of the Internal Revenue Code of 1986, as amended (the "Code").

(a) Administration. The Employee Plan is administered by a committee of the Board or such other committee appointed from time to time by the Board. The Board has designated the HRCC to act as the committee under the Employee Plan.

(b) Eligibility. Employees who customarily work more than 20 hours per week and at least five months per year are eligible to participate in the Employee Plan following the initial 90 days (or such other period not in excess of two years that the HRCC may designate) of employment with the Company and certain designated subsidiaries. The HRCC may determine that the Employee Plan will not be extended to all or some officers, highly compensated employees or to those employees whose principal duties consist of supervising the work of other employees. It is anticipated that employees who participate in the Management Plan will not be eligible to participate in the Employee Plan. In addition, any employee who is a "5% owner" of the Company's securities may not participate in the Employee Plan.

(c) Participation in the Employee Plan. An eligible employee may purchase Common Stock through periodic payroll deductions from the employee's compensation, which may not exceed \$25,000 of fair market value of Common Stock per year. A participant's accumulated payroll deduction account is used to purchase shares of Common Stock on the last business day of each offering period (the "Exercise Date"). The agent for the Employee Plan holds the shares of Common Stock credited to a participant's account on a book entry basis. A participant is entitled to all rights as a stockholder as soon as the shares are credited to his or her account.

(d) Purchase Price. The purchase price for a share of Common Stock is based on a designated percentage of its fair market value as set by the HRCC in its sole discretion at least 30 days prior to the beginning of an offering period. Initially, the price per share of Common Stock will be the lesser of (i) 85% of the fair market value of a share of Common Stock on the first day of an offering period or (ii) 85% of the fair market value of a share of Common Stock

on the Exercise Date. In no event may the price be less than this amount.

(e) Sales of Shares of Common Stock. A participant may sell all or a portion of the shares of Common Stock held under the Employee Plan through the agent for the Employee Plan, subject to brokerage commissions. Subject to certain limitations in the Employee Plan, a participant may request a certificate for his or her whole shares of Common Stock held under the Employee Plan.

## 2. Management Plan

The Management Plan is intended to create a means to provide deferred compensation to selected management employees of the Company and its affiliates and to raise their level of stock ownership in the Company. The Management Plan allows eligible employees to purchase restricted stock units ("RSUs") on a pretax basis and at a discount (subject to certain conditions)

with amounts that would otherwise be paid as cash bonuses under the Company's Annual Incentive Plan.

(a) Administration. The Management Plan is administered by a committee of the Board (the "Management Plan Committee") which will consist of two or more directors intended to be "non-employee" directors under Section 16(b) of the Securities Exchange Act of 1934. The Board has designated the HRCC to act as the Management Plan Committee. The Management Plan will at all times be entirely unfunded, and no participant or other person will own any interest in any particular assets of the Company or any of its affiliates (including Common Stock) by reason of the right to receive payment under the Management Plan.

(b) Eligibility. The Management Plan is intended to cover a select group of management employees and highly compensated executives who are designated by the

Management Plan Committee. In particular, it is anticipated that the Management Plan will generally cover vice-presidents and above.

(c) Awards. An RSU is a unit of measurement equivalent to one share of Common Stock but with none of the attendant rights of a stockholder of a share of Common Stock. The fair market value of an RSU on any date is deemed to be the fair market value of a share of Common Stock on that date.

(d) Participation in the Management Plan. At times set forth in the Management Plan, a participant may elect to defer amounts that would otherwise be paid to him or her under the Company's Annual Incentive Plan in order to purchase RSUs. RSUs will be credited to a participant's account on the date the bonus for the relevant year is paid or otherwise would be paid (the "Award Date") in an amount equal to (a) the amount of the Participant's bonus to be received as an award of RSUs, as elected by the participant, divided by (b) the "cost" of a share of Common Stock on the Award Date.

The "cost" of purchasing an RSU as of an Award Date is based on a designated percentage, as set by the Management Plan Committee, which may not be less than 85% of the fair market value of a share of Common Stock. Initially, the cost of an RSU will be equal to 85% of the fair market value of a share of Common Stock on the Award Date.

(e) Vesting. A participant will become vested in each RSU three years after the Award Date on which the RSU was granted or, if earlier, upon death while employed, disability while employed or retirement.

(f) Payment. For each vested RSU, a participant will receive one share of Common Stock following the earlier of the participant's termination of employment or the end of the deferral period elected by the participant (i.e., the period not less than three years following the Award Date). For each nonvested RSU, the type of termination event will dictate the amount and payment form that the participant will receive. A participant who voluntarily terminates will receive cash equal to the lesser of the total cost of RSUs or their fair market value on the date of termination. If a participant is terminated without cause, the participant will receive (i) Common Stock based on years employed after the Award Date and (ii) cash for the remaining RSUs equal to the lesser of the total cost of RSUs or their fair market value on the date of termination.

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Both Plans may be amended, frozen or terminated at any time. No amendment will be effective unless approved by the holders of Class A Common Stock of the Company if such stockholder approval of such amendment is required to comply with Section 423 of the Code (solely with regard to the Employee Plan) or any applicable law, regulation or stock exchange rule.

A maximum of 150,000 shares of Common Stock have been reserved under the Management Plan and a maximum of 200,000 shares have been reserved under the Employee Plan, in each case, subject to adjustment in certain events. The shares available under either Plan may be treasury shares or authorized but unissued shares and, in the case of the Employee Plan, shares may also be purchased on the open market.

The foregoing is summary of the Plans and is qualified in its entirety by the plan documents. This letter is being distributed on or about November 16, 1998 to holders of record of the Company's Common Stock as of November 6, 1998. If you have any questions regarding the Plans or desire a copy of the Plans (either before or after the Plans become effective), please write or call Investor Relations, Scholastic Corporation 555 Broadway, New York, NY 10012, telephone number 212-343-6741.

On behalf of the Board of Directors

/s/ Richard Robinson  
Richard Robinson  
Chairman, President and Chief Executive Officer