

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, 2000

Commission File No. 0-19860

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.)

555 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:

NONE

Securities Registered Pursuant to Section 12(g) of the Act:

TITLE OF CLASS	NAME OF EACH EXCHANGE ON WHICH REGISTERED
Common Stock, \$0.01 par value	The NASDAQ Stock Market

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes X No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

The aggregate market value of the Common Stock, \$0.01 par value, held by non-affiliates as of August 9, 2000, was approximately \$877,907,000. 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 August 9, 2000 was as follows: 16,238,581 shares of Common Stock and 828,100 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, 2000.

PART I

ITEM 1 BUSINESS

OVERVIEW

Scholastic Corporation (together with its subsidiaries, "Scholastic" or the "Company") is a global children's publishing and media company. The Company believes that it is the world's largest publisher and distributor of children's books. Scholastic creates quality educational and entertaining materials and products for use in school and at home, including children's books, textbooks, magazines, technology-based products, teacher materials, television programming, videos and toys. The Company's website, Scholastic.com, is a leading site for teachers and classrooms and an award-winning destination for children. During its eighty-year history, Scholastic has emphasized quality products and dedication to learning.

On June 22, 2000, Scholastic acquired Grolier Incorporated ("Grolier") for \$400 million in cash. Grolier is the leading operator of United States direct-to-home book clubs for children, primarily serving children age five and under, and is the leading print and on-line publisher of children's non-fiction and reference products (including the Children's Press and Franklin Watts imprints in the United States and major encyclopedias) sold primarily to United States school libraries. Grolier also has significant international operations in the United Kingdom, Canada and Southeast Asia, complementing Scholastic's wholly-owned businesses in the United Kingdom, Canada, Australia, New Zealand, Mexico, India,

Ireland and Argentina.

Scholastic Corporation was incorporated under the laws of Delaware in 1986 and, through predecessor entities, has been in business since 1920. Grolier, through its predecessor entities, has been in business since 1895.

OPERATING SEGMENTS

The Company's businesses are categorized 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.

During the three-year period ended May 31, 2000, Scholastic's revenues have grown at an average annual compounded rate of 14.5%.

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

(Amounts in millions)

	2000	1999	1998
CHILDREN'S BOOK PUBLISHING AND DISTRIBUTION	\$ 872.4	\$ 667.2	\$ 562.9
EDUCATIONAL PUBLISHING	219.8	203.8	210.6
MEDIA, LICENSING AND ADVERTISING	104.3	103.5	99.9
INTERNATIONAL	206.0	191.0	196.4
TOTAL	\$1,402.5	\$1,165.5	\$1,069.8

Certain amounts have been reclassified in accordance with EITF Issue No. 00-10, "Accounting for Shipping and Handling Fees and Costs."

Based on Grolier's historical financial results, the combination of Grolier's revenues with Scholastic's would not significantly change the Company's sales mix by operating segment.

CHILDREN'S BOOK PUBLISHING AND DISTRIBUTION
(62.2% of fiscal 2000 revenues)

GENERAL

The Company's CHILDREN'S BOOK PUBLISHING AND DISTRIBUTION segment includes the publication and distribution of children's books in and from the United States through school-based book clubs, continuity programs, school-based book fairs and the trade channel. Commencing with the first quarter of fiscal 2001, this segment will also include Grolier's direct-to-home book clubs in the United States and the United States trade imprint Orchard Books.

The Company believes it is the largest publisher and distributor of children's books and 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. Grolier is the leading distributor in the United States of children's books through the direct-to-home channel, primarily for children age five and younger also publishes children's books under the Orchard Books imprint and for distribution in the trade channel.

The Company offers a broad range of quality children's literature. Many of the books offered by the Company have received awards for excellence in children's literature, including the

Caldecott and the Newbery awards. In fiscal 2000, Scholastic distributed in excess of 250 million children's books in the United States. In addition, the Company's books are exported to countries throughout the world.

The Company obtains titles for sale in its distribution channels from three principal sources. First, the Company publishes paperback and/or hardcover editions of books written by outside authors under exclusive publication agreements with the Company or written by the Company's editorial staff. Scholastic generally owns the rights to sell these titles in all channels of distribution, including school and trade. Scholastic's second source of titles is reprints of books originally published by other publishers for which the Company acquires rights under license agreements to sell exclusively in the school market. The third source of titles is the Company's purchase of finished books from other publishers to be sold in the school market. At May 31, 2000, the Company's backlist (a list of titles published as new titles in prior years) included more than 5,000 titles. Grolier acquires books for direct-to-home distribution through licenses with other publishers and media companies and through original publication agreements directly with authors.

SCHOOL BOOK CLUBS

Scholastic founded its first school book club in 1948. The Company operates ten school-based book clubs: FIREFLY(R), serving pre-kindergarten ("pre-K") and kindergarten students; SEESAW(R), serving kindergarten and first grade students; two CARNIVAL(R) clubs, one serving students in kindergarten through second grade, and the other serving third through sixth grade students; LUCKY BOOK CLUB(R), serving second and third grade students; ARROW BOOK CLUB(R), serving fourth through sixth grade students; TAB BOOK CLUB(R), serving sixth, seventh and eighth grade students; and three TRUMPET(R) clubs, serving pre-K through sixth grade students. In addition to its regular periodic offerings, the Company creates special theme-based offers targeted to the different grade levels during the year, such as holiday offers, science offers, curriculum offers and Spanish language offers.

The Company estimates that over 80% of all elementary school teachers in the United States participate in school book clubs, with approximately 80% of these teachers using Scholastic book clubs at least once during the year. The Company believes that teachers participate in school book clubs because it is their opinion that quality books at affordable prices will be of interest to students and improve students' reading skills. The Company also believes that teachers participate because the school book clubs offer easy access to a broad range of books.

The Company mails promotional pieces containing order forms to teachers in the vast majority of the pre-K through eighth grade classrooms in the United States. Participation in any offer does not create an obligation to participate in any subsequent offer, nor does it preclude participation in a competitor's book club. Teachers who wish to participate in a school book club distribute the order forms to their students, who may choose from generally 70 or more selections at substantial reductions from list prices. The teacher consolidates the students' orders and forwards them to the Company. Orders are then shipped to the teacher for distribution to the students. Teachers who participate in the book clubs receive bonus points for use by their school, which may be redeemed for the purchase of additional books and other items for their classrooms.

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

CONTINUITY PROGRAMS

The Company operates book club continuity programs, in which children and their families generally place a single order and receive more than one shipment of books. Scholastic's continuity programs include ANIMORPHS(R) ALLIANCE, THE BABY-SITTERS COLLECTOR CLUB, CLIFFORD'S CLUBHOUSE, JUST 4 GIRLS, SCHOLASTIC AT HOME PHONICS READING PROGRAM, THE MAGIC SCHOOL BUS(R), ARTHUR'S ADVENTURE and STAR WARS(R) MISSIONS. Scholastic will be introducing new continuity programs, including I SPY(TM) and an updated CLIFFORD THE BIG RED DOG(TM) program based on Scholastic's new animated television series, CLIFFORD THE BIG RED DOG(TM), debuting in fall 2000. Scholastic's continuity programs are promoted primarily through Scholastic's school book clubs.

Grolier's direct-to-home book clubs in the United States, primarily serving children age five and under, generated approximately \$270 million in revenues during Grolier's last fiscal year ended December 31, 1999. Grolier's direct-to-home book clubs include licensed programs such as DISNEY BOOK CLUB(TM), BARBIE(TM) and DR. SEUSS BEGINNING READERS PROGRAM(TM) and proprietary Grolier originated programs. Grolier programs are promoted primarily through direct mail, telemarketing, the internet and advertisements.

SCHOOL BOOK FAIRS

The Company entered the school-based book fair business in 1981. Since that time, the Company's school book fair business has grown through geographic expansion, selected acquisitions, increased penetration of its existing markets, increased frequency of multiple fairs for the same school and growth in revenue on a per fair basis.

Book fairs are generally week-long events conducted on school premises and sponsored by school librarians and/or parent-teacher organizations. School book fair events expose children to hundreds of new books and allow them to purchase books and other select products of their choice. Although the Company provides the school with the books and book display cases, the

school itself conducts the book fair. The Company believes that the primary motivation of the schools in sponsoring fairs is to make quality books available to their students at reasonable prices in order to help them become more interested in reading. In addition, the school retains a portion of the book fair revenues, which can then be used to purchase books, supplies and equipment for the school.

The Company operates school book fairs in all 50 states under the name SCHOLASTIC BOOK FAIRS(R). The Company also markets fairs branded as SCHOLASTIC SHOWCASE BOOK FAIRS(TM), SCHOLASTIC EXPLORASTORY BOOKFAIRS(TM), READ STREET BOOK FAIRS(R) and DISCOVERY FAIRS(TM), which feature non-fiction, science, technology, arts, crafts and interactive products. In addition, THE Company offers premium fairs under the names SCHOLASTIC LITERACY FESTIVAL(TM) and SCHOLASTIC BOOKS ON TOUR(R), which feature an expanded list of titles supported by merchandise displays and costumed book characters.

The Company's books and display cases are delivered to schools from the Company's warehouses by a fleet of leased vehicles. The Company's sales and customer service functions are performed from regional sales offices, supported by field representatives. The Company believes that its competitive advantages in the book fair business include the strength of the relationship between its sales representatives and schools, broad geographic coverage, a high level of customer service and its breadth of product selection. Over 90% of the schools that sponsored a Scholastic book fair in fiscal 1999 sponsored a Scholastic book fair again in fiscal 2000.

TRADE

The Company is one of the leading sellers of children's books through trade booksellers in the United States. The Company maintains over 3,000 titles for trade distribution, including original publications such as HARRY POTTER(TM), I SPY(TM), ANIMORPHS(R), DEAR AMERICA(R), THE BABY-SITTERS CLUB(R), THE MAGIC SCHOOL BUS(R), CAPTAIN UNDERPANTS(TM), MISS SPIDER(R) and CLIFFORD THE BIG RED DOG(R) and licensed properties such as POKEMON(R), TELETUBBIES(TM), FRANKLIN(R) and STAR WARS(R). The Company has a trade sales organization which focuses on selling the broad range of Scholastic books to book store accounts.

The Company's fiscal 2000 sales in the trade market were led by the HARRY POTTER books. Other Scholastic bestsellers during fiscal 2000 included books from the DEAR AMERICA, I SPY, ANIMORPHS, CAPTAIN UNDERPANTS and POKEMON series.

The Company licenses foreign-language rights to selected Scholastic titles to other publishing companies around the world in over 25 languages.

EDUCATIONAL PUBLISHING (15.7% of fiscal 2000 revenues)

GENERAL

The Company's EDUCATIONAL PUBLISHING segment includes the publication and distribution of kindergarten ("K") through 12th grade textbooks, supplemental materials, classroom magazines, teaching resources and instructional technology in and from the United States to schools and libraries.

Scholastic has been providing quality innovative educational materials to schools and libraries since it began publishing classroom magazines in the 1920's. The Company added supplementary books and texts to its product line in the 1940's, professional books for teachers in the 1980's and early childhood products and core curriculum materials in the 1990's. 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. In addition, educational materials are sold outside the United States to United States government schools abroad and international schools. Commencing with the first quarter of fiscal 2001, this segment will include Grolier Publishing, which includes print and on-line children's non-fiction and reference products (including the Children's Press and Franklin Watts imprints in the United States and major encyclopedias), sold primarily to United States school libraries.

The Company markets and sells its EDUCATIONAL PUBLISHING products through a combination of field representatives, direct mail (including catalogs) and telemarketing (both outsourced and in-house).

CLASSROOM MAGAZINES

Scholastic is a leading publisher of classroom magazines. These magazines are used as supplementary educational materials by teachers in grades K to 12. The Company's classroom magazines carry the Scholastic name, which reinforces the Company's educational reputation with students, teachers and school administrators. The Company's reputation for publishing quality magazines, maintaining an extensive magazine mailing list and having a large customer base of teachers helps generate customers for its school book clubs and other Scholastic products as well as its magazines. At the same time, the Company uses its school book club mailings to help secure additional circulation for its classroom magazines.

The Company's 33 classroom magazines are designed to encourage students to read and to supplement the school's formal learning program by bringing subjects of current interest into the classroom. The subjects covered include English, reading, literature, math, science, current events, social studies and foreign languages. The most well known of the Company's

domestic magazines are SCHOLASTIC NEWS(R) and JUNIOR SCHOLASTIC(R).

Scholastic's classroom magazine circulation in the United States in fiscal 2000 was approximately 8 million. Approximately two-thirds of the circulation was in grades K to 6, with the balance in grades 7 to 12. In fiscal 2000, teachers in over 60% of the elementary schools and in over 70% of the secondary schools in the United States used the Company's classroom magazines. The various classroom magazines are distributed either on a weekly, bi-weekly or monthly basis during the school year.

The majority of the magazines purchased are paid for with school funds and the balance is paid for by teachers or students. Circulation revenue accounted for substantially all of the Company's classroom magazine revenues in fiscal 2000.

CORE, SUPPLEMENTAL, EARLY CHILDHOOD AND TEACHING RESOURCE PUBLISHING

The Company's core and supplemental publishing operations develop and distribute instructional materials (both core and supplemental curriculum programs) directly to schools in the United States, purchased through school budgets.

The Company's strategy is to publish and distribute a full array of products in reading and language arts, concentrating on grades pre-K to 8, to meet the spectrum of schools' needs in these disciplines. The Company's offerings range from core curriculum products, including SCHOLASTIC LITERACY PLACE(R), a grade K to 6 core curriculum reading program with technology features, and its companion Spanish-language program SCHOLASTIC SOLARES(R), to supplemental materials, including print products (broad selections of paperback books and specialized products such as phonics readers). The Company's technology-based products assist in teaching reading (WIGGLEWORKS(R)), measure student progress (SCHOLASTIC READING INVENTORY(TM)) and encourage reading through a school-managed incentive program (SCHOLASTIC READING COUNTS!(TM)). READ 180(TM), the Company's cutting-edge reading intervention program for 4th through 8th grade students reading at least two years below grade level, is helping raise students' test scores and is used in a majority of the largest urban school districts.

Scholastic will introduce two new programs in fiscal 2001: READ XL(TM), a reading improvement program for students in grades 6 to 8, providing high-interest language arts curricula to students reading one to three years below grade level, and BUILDING LANGUAGE FOR LITERACY(TM), a program of books and audio tapes to guide children through the critical pre-K to K stages of literacy development.

The teaching resources group publishes professional books designed for and generally purchased by teachers and distributes individual paperbacks and collections to schools. The Company also distributes a successful line of supplemental phonics products.

GROLIER PUBLISHING

Grolier Publishing products include print and on-line versions of ENCYCLOPEDIA AMERICANA(R), THE NEW BOOK OF KNOWLEDGE(R), CUMBRE, a Spanish language encyclopedia, as well as quality non-fiction books published in the United States under the imprints Children's Press and Franklin Watts. Grolier Publishing had revenues of approximately \$80 million in its last fiscal year ended December 31, 1999.

MEDIA, LICENSING AND ADVERTISING (7.4% of fiscal 2000 revenues)

GENERAL

The Company's MEDIA, LICENSING AND ADVERTISING segment includes the production and distribution of programming and consumer products (including children's television programming, videos, CD-ROM's, feature films and non-book products) and internet services, as well as advertising and promotional activities.

PRODUCTION AND DISTRIBUTION

The Company's wholly-owned subsidiary, Scholastic Entertainment Inc. ("SEI"), extends the Company's franchises by creating programming and managing global brands based on Scholastic's strong publishing properties. SEI's multimedia programming also generates extensive awareness for brand building and consumer products activities worldwide. SEI develops and produces children's television programming, videos, CD-ROM's, feature films and non-book products.

SEI has built a television media library of over 160 half-hours including: SCHOLASTIC'S THE MAGIC SCHOOL BUS(R), Goosebumps(R), ANIMORPHS(R) and DEAR AMERICA(R). These television series initially aired on PBS, Fox Kid's Network, Nickelodeon and HBO, respectively, and have been licensed for broadcast in more than 50 countries.

SEI will launch two new animated original television series in fiscal 2001. CLIFFORD THE BIG RED DOG(TM), is a television series based on the Company's best-selling children's books by Norman Bridwell, first published in 1963, and will be shown on PBS Kids with 40 episodes in the initial season. SEI will also launch 26 episodes of HORRIBLE HISTORIES(TM), an animated adaptation of Scholastic UK's best-selling book series, which will be shown on ITV Network in the United Kingdom.

BRAND MARKETING AND CONSUMER PRODUCTS

SEI creates and develops branding campaigns for properties. The fiscal 2001 launch of the CLIFFORD THE BIG RED DOG(TM) television series will foster a comprehensive licensing program for pre-

school and early grade children to support the CLIFFORD brand. The campaign includes new CLIFFORD books, videos, CD-ROM's and consumer products. In connection with its branding campaigns, SEI has received numerous marketing and licensing awards and has partnered with industry leaders in consumer promotions.

In addition, SEI creates, manufactures and distributes high-quality 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(TM), SCHOLASTIC'S THE MAGIC SCHOOL BUS(R), THE REAL MOTHER GOOSE(TM) and STELLALUNA(TM). 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 book clubs, school book fairs and continuity programs. Scholastic also produces and markets videos to the school market through Weston Woods, a producer of videos based on high quality children's books.

SOFTWARE

Scholastic sells original and licensed consumer software for grades K to 8 through school-based software clubs, school book clubs and school book fairs. The Company acquires software for distribution in all of these channels through a combination of licensing, purchases of product from software publishers and internal development. In fiscal 1998, the Company also commenced trade sales of its internally developed CD-ROM titles, including the award-winning I SPY(TM) CD-ROM, through a third party distribution arrangement. Scholastic's school software clubs are modeled and marketed on the same basis as the Company's school book clubs.

SCHOLASTIC.COM

The Company's website, Scholastic.com, is a leading site for teachers and classrooms and an award-winning destination for children. Scholastic pioneered on-line curriculum education in 1993 with the launch of SCHOLASTIC NETWORK, a subscription-based Internet service for teachers of grades K to 8. In fiscal 2000, the Company launched the new Scholastic.com, integrating the resources of the SCHOLASTIC NETWORK to provide, free of charge, multimedia teaching units, thousands of classroom- tested, ready-to-use lesson plans, as well as teaching tools and on-line activities. For children, Scholastic.com offers learning sites with favorite characters, such as ANIMORPHS(TM), CLIFFORD THE BIG RED DOG(TM), I SPY(TM) and HARRY POTTER(TM). DURING fiscal 2000, Scholastic.com won the Webby award for "Best Kid's Web Site."

The re-launched Scholastic.com offers content designed for each of its primary audiences - teachers, children and parents. In fiscal 2001, Scholastic plans to add to the site e-commerce functionality, improved home-to-school communication tools and resources for parents to help their children learn.

The purchase of Grolier further strengthens Scholastic's home and school Internet strategy, providing parents of pre-school children with on-line opportunities to purchase books and multimedia products.

ADVERTISING

Certain of the Company's magazine properties generate advertising revenues as their primary source of revenue, including INSTRUCTOR, SCHOLASTIC EARLY CHILDHOOD TODAY(TM) and COACH AND ATHLETIC DIRECTOR(TM), which are directed at teachers and education professionals and are distributed during the academic year. Total circulation for these magazines was approximately 309,000 in fiscal 2000. Subscriptions for these magazines are solicited by direct mail and are cross-marketed to teachers through Scholastic's book clubs. SCHOLASTIC PARENT AND CHILD(R) magazine, which is directed at parents and distributed through schools and day care programs, had a paid circulation of approximately 1.3 million in fiscal 2000. These magazines carry outside advertising, advertising for Scholastic's other products and advertising for clients that sponsor customized programs. In February 2000, the Company added to this magazine group with the purchase of SOCCER JR.(R), a soccer magazine designed for children ages 8 to 14, and two related special adult editions, SOCCER FOR PARENTS and COACHES EDITION.

Also included in this group are: Scholastic Marketing Partners, which develops sponsored educational materials, creating supplementary classroom programs in partnership with corporations, government agencies and nonprofit organizations; and Quality Education Data, which maintains and markets databases focused on schools and education.

INTERNATIONAL

(14.7% of fiscal 2000 revenues)

GENERAL

The INTERNATIONAL segment includes the publication and distribution of products and services outside the United States by the Company's operations in the United Kingdom, Canada, Australia and New Zealand, and its newer businesses in Mexico, India, Ireland and Argentina. Commencing with the first quarter of fiscal 2001, this segment will also include Grolier's direct-to-home operations in the United Kingdom, Canada and Australia and the publication and distribution of Grolier's reference products and services outside the United States, principally in Southeast Asia.

Scholastic's operations in the United Kingdom, Canada, Australia and New Zealand generally mirror Scholastic's United States business model. Each of these 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 and through trade channels, distribute magazines and offer on-line services. Each of these operations has

rights licensing programs and is a licensor of book tie-ins for major media properties, such as STAR WARS, POKEMON and TELETUBBIES. Original books published by each of these operations have received awards of excellence in children's literature both domestically and internationally.

AUSTRALIA

Scholastic Australia, founded in 1968, is the leading publisher and distributor of children's educational materials in Australia and has the largest school book club and book fair operation in the country, reaching 90% of the primary schools. Scholastic Australia's imprints include: Scholastic Press, Omnibus Books and Margaret Hamilton Books.

CANADA

Scholastic Canada, founded in 1957, is a leading publisher and distributor of English and French language books, the largest school book club and school book fair operator in Canada and one of the leading suppliers of original or licensed children's books to the Canadian trade market. Since 1965, Scholastic Canada has produced quality Canadian-authored books and educational materials in English. Scholastic Canada also publishes in French to support its French Canadian operations.

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 book clubs and school book fairs, Scholastic New Zealand reaches 90% of the country's schools.

UNITED KINGDOM

Scholastic UK, founded in 1964, is a leading children's publisher in the United Kingdom. Scholastic UK's trade books appear frequently on children's bestseller lists in the United Kingdom. Scholastic UK is the largest school book club and school book fair operator in the United Kingdom. Scholastic UK's best selling original book series, HORRIBLE HISTORIES(TM), is being adapted for television by SEI. Scholastic UK also publishes five monthly magazines for teachers and supplemental educational materials, including professional books.

RECENT EXPANSION

In recent years, the Company has launched operations in Mexico (1994), India (1997), Ireland (1998) and Argentina (1999). These businesses principally distribute through school book fairs and/or school book clubs books and educational materials published by Scholastic's other operations as well as from other publishers. In fiscal 1999, Scholastic India began its own Hindi and English language original publishing program. Grolier's revenues for international operations were \$100 million in Grolier's last fiscal year ended December 31, 1999.

MANUFACTURING AND DISTRIBUTION

The Company's books, magazines, software and other materials and products are manufactured by third parties through arm's length negotiation or competitive bidding. The Company, when it deems it to be appropriate, enters into multi-year agreements that guarantee specified volume in exchange for favorable pricing terms. Paper is purchased from third party sources. Grolier's manufacturing and purchasing practices are generally consistent with Scholastic's practices. The Company does not anticipate any difficulty in continuing to satisfy its manufacturing and paper requirements.

In the United States, the Company processes school book club, trade and export orders from its primary warehouse and distribution facility in Jefferson City, Missouri, and fulfills continuity orders primarily from its warehouse and distribution facility in Des Plaines, Illinois. In connection with its trade business, the Company generally outsources certain services, including invoicing, billing, returns processing and collection services and may also ship product directly from printers to customers. School book fair orders are fulfilled through a network of warehouses across the country. The Company's international operations use similar distribution systems.

Grolier outsources the majority of its fulfillment and distribution under contracts with third parties. The Company does not anticipate any difficulty in continuing to distribute effectively Grolier's products.

SEASONALITY

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

For the June through October time period, the Company experiences negative cash flow due to the seasonality of its business. Historically, as a result of the Company's business cycle, seasonal borrowings have increased during June, July and August, have generally peaked in September or October, and have been at their lowest point in May.

The Grolier acquisition is not expected to significantly change the seasonality

of the Company's results.

COMPETITION

The market for children's educational and entertainment materials is highly competitive. Competition is based on the quality and range of educational materials made available, price, promotion and customer service. In the United States, competitors include one other national school book club operator and one other

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national school book fair operator as well as smaller regional operators, including local bookstores. Competitors in the entertainment market include well-established companies, networks and cable operators. Domestically and internationally, competitors include numerous other book, textbook 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), publishers of computer software and distributors of products and services on the Internet. Competition may increase further to the extent that other entities enter the market and to the extent that current competitors or new competitors develop and introduce new materials that compete directly with the products distributed by the Company or develop or expand competitive sales channels.

EMPLOYEES

At May 31, 2000, Scholastic employed approximately 5,500 people in full-time jobs and 2,300 people in hourly or part-time jobs in the United States and approximately 1,800 people internationally. The number of part-time employees fluctuates during the year because the Company's business is closely correlated with the school year. The acquisition of Grolier added approximately 900 people in full time jobs and 400 people in hourly or part-time jobs in the United States and approximately 600 people internationally. The Company believes that relations with its employees are good.

COPYRIGHT AND TRADEMARKS

SCHOLASTIC is a registered trademark in the United States and in a number of countries where the Company conducts business. Scholastic Inc., the Company's principal U.S. operating subsidiary, has registered and/or has pending applications to register its trademarks in the United States for the names of each of its domestic book clubs, the titles of its magazines and the names of all its core curriculum programs. The Company's international subsidiaries have also registered trademarks in the name of Scholastic Inc. for the names of their respective book clubs and magazines. Although individual book titles are not subject to trademark protection, Scholastic Inc. has registered and/or has pending applications to register trademarks in the United States and in a number of countries for the names of certain series of books and consumer products, such as THE MAGIC SCHOOL BUS, ANIMORPHS, CLIFFORD THE BIG RED DOG and HORRIBLE HISTORIES. GROLIER is a registered trademark in the United States and a number of countries where it conducts business. With the acquisition of Grolier, the Company acquired all trademarks and copyrights registered in the name of Grolier Incorporated or its wholly-owned subsidiaries. All of the Company's publications, including books, magazines and software, are subject to copyright protection and the Company consistently copyrights its magazines, books and software in the name of Scholastic Inc., except for Grolier's publications, which currently continue to be copyrighted under the name of Grolier Incorporated or its wholly-owned subsidiaries. Copyrights and trademarks are vigorously defended by the Company and, as necessary, outside counsel may be retained to assist in such protection.

ITEM 2 PROPERTIES

The Company maintains its headquarters in the metropolitan New York area, where it leases approximately 480,000 square feet of space for executive offices and certain of its operating divisions. The Company is expanding its New York facilities by constructing a 120,000 square foot facility adjoining its current headquarters. The Company also owns or leases approximately 1.5 million square feet of office and warehouse space for its National Service Operation located in the Jefferson City, Missouri area. In addition, the Company owns or leases approximately 2.1 million square feet of office and warehouse space in over 80 facilities in the United States for Scholastic Book Fairs.

Additionally, the Company owns or leases approximately 810,000 square feet of office and warehouse space in over thirty facilities in Canada, the United Kingdom, Australia, New Zealand and elsewhere around the world for its international businesses.

Grolier Incorporated owns an industrial/office building complex in Danbury, Connecticut, consisting of approximately 140,000 square feet of office space and a 152,000 square foot warehouse facility. In addition, Grolier leases approximately 63,000 square feet of office space and 12,000 square feet of warehouse space to support its United States operations. Grolier also leases approximately 93,000 square feet of office space to support its international operations.

The Company considers its properties adequate for its present 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 Note 4 of Notes to Consolidated Financial Statements.

ITEM 3 LEGAL PROCEEDINGS

As previously reported, three purported class action complaints were filed in the United States District for the Southern District of New York against the Company and certain officers seeking, among other remedies, damages resulting from defendants' alleged violations of federal securities laws. The complaints were

consolidated. The Consolidated Amended Class Action Complaint (the "Complaint") was served and filed on August 13, 1997. The Complaint was styled as a class action, In RE SCHOLASTIC CORPORATION SECURITIES LITIGATION, 97 CIV.II 2447 (JFK), on behalf of all persons who purchased Company common stock from December 10, 1996 through February 20, 1997. The Complaint alleged, among other things, violations of Sections 10(b) and 20 (a) of the Securities Exchange Act of 1934 and Rule 10b-5 thereunder, resulting from purportedly materially false and misleading statements to the investing public concerning the financial condition of the Company. Specifically, the Complaint alleged misstatements and omissions by the Company pertaining to adverse sales and returns of its popular GOOSEBUMPS book series prior to the Company's interim earnings announcement on February 20, 1997. On January 26, 2000, an order was entered granting the Company's motion to dismiss plaintiffs' Second Amended Consolidated Complaint without leave to further amend the complaint. Previously, on December 14, 1998, an order was entered granting the Company's motion to dismiss plaintiffs' First Amended Consolidated Complaint, with leave to amend the complaint. In dismissing both complaints, which alleged substantially similar claims, the court held that plaintiffs failed to state a claim upon which relief can be granted. Plaintiffs have appealed the most recent dismissal. The Company continues to believe that the litigation is without merit and will continue to vigorously defend against it.

As previously reported, on February 1, 1999, two subsidiaries of the Company commenced an action in the Supreme Court of the State Court of New York County of New York against Parachute Press, Inc. ("Parachute"), the licensor of certain publication and nonpublication rights to the GOOSEBUMPS series, certain affiliated Parachute companies and R.L. Stine, individually, alleging material breach of contract and fraud in connection with the agreements under which such Goosebumps rights are licensed to the Company. The issues in the case, captioned SCHOLASTIC INC. AND SCHOLASTIC ENTERTAINMENT INC. V. PARACHUTE PRESS, INC., PARACHUTE PUBLISHING, LLC, PARACHUTE CONSUMER PRODUCTS, LLC, AND R.L. STINE (Index No. 99/600512), are also, in part, the subject of two litigations commenced by Parachute following repeated notices from the Company to Parachute of material breaches by Parachute of the agreements under which such rights are licensed, and the exercise by the Company of its contractual remedies under the agreements. The previously reported first Parachute action, PARACHUTE PRESS, INC. V. SCHOLASTIC INC., SCHOLASTIC PRODUCTIONS, INC. AND SCHOLASTIC ENTERTAINMENT INC., 97 CIV. 8510 (JFK), in which two subsidiaries of the Company are defendants and counterclaim plaintiffs, was commenced in the federal court for the Southern District of New York on November 14, 1997 and was dismissed for lack of subject matter jurisdiction on January 29, 1999. Parachute has filed an appeal of the dismissal. In August 2000, the Court of Appeals for the Second Circuit vacated the dismissal and remanded the case for further proceedings. The second action, captioned PARACHUTE PRESS, INC. V. SCHOLASTIC INC., SCHOLASTIC PRODUCTIONS, INC. AND SCHOLASTIC ENTERTAINMENT INC. (Index No. 99/600507), was filed contemporaneously with the filing of the Company's complaint on February 1, 1999 in the Supreme Court of the State Court of New York County of New York. In its two complaints and its counterclaims, Parachute alleges that the exercise of contractual remedies by the Company was improper and seeks declaratory relief and unspecified damages for, among other claims, alleged breaches of contract and acts of unfair competition. Damages sought by Parachute include the payment of the total of approximately \$36.1 million of advances over the term of the contract, of which approximately \$15.3 million had been paid at the time the first Parachute litigation began and payment of royalties set-off by Scholastic against amounts claimed by the Company. On July 21, 2000, the Company and Parachute each filed motions for partial summary judgement in the pending state court cases. The Company is seeking declaratory relief and damages for, among other claims, breaches of contract, fraud and acts of unfair competition. Damages sought by the Company include repayment by Parachute of a portion of the \$15.3 million advance already paid. The Company intends to vigorously defend its position in these proceedings. The Company does not believe that this dispute will have a material adverse effect on its financial condition.

In addition to the above actions, 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 AND RELATED STOCKHOLDER MATTERS

The Company's Common Stock is traded on the NASDAQ National Market System under the symbol SCHL. The Class A Stock is convertible into Common Stock on a share-for-share basis. There is no active market for the Class A Stock. The following table sets forth, for the periods indicated, the quarterly and one-year high and low selling prices on the NASDAQ National Market System for the Company's Common Stock.

	FOR FISCAL YEARS ENDED MAY 31,			
	2000		1999	
	HIGH	LOW	HIGH	LOW
FIRST QUARTER	53 3/4	39 5/8	45 3/4	35 3/4
SECOND QUARTER	55 5/8	39	52 3/4	35 1/2
THIRD QUARTER	70 3/4	48	59 1/2	46 5/8
FOURTH QUARTER	57	43 1/2	56 1/4	44
YEAR	70 3/4	39	59 1/2	35 1/2

The Company has not paid any dividends since its initial public offering in February 1992 and has no current plans to pay any dividends on its Class A and 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 for further information.

The number of holders of record of Class A and Common Stock as of August 9, 2000 were 3 and approximately 5,000, respectively.

ITEM 6 SELECTED FINANCIAL DATA

FOR FISCAL YEARS ENDED MAY 31, (AMOUNTS IN MILLIONS, EXCEPT PER SHARE DATA)

	2000	1999	1998	1997	1996
STATEMENT OF INCOME DATA:					
TOTAL REVENUES(1)	\$1,402.5	\$1,165.5	\$1,069.8	\$972.5	\$933.4
COST OF GOODS SOLD(1)	678.3	571.9	548.2	536.9	470.8
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES	592.6	493.3	440.3	399.6	367.4
OTHER OPERATING COSTS:					
GOODWILL AND TRADEMARK AMORTIZATION AND DEPRECIATION	24.1	22.4	21.7	18.3	13.1
NON-RECURRING CHARGES	8.5	--	11.4	--	24.3
OPERATING INCOME	99.0	77.9	48.2	17.7	57.8
GAIN ON SALE OF THE SOHO GROUP	--	--	10.0	--	--
INTEREST EXPENSE, NET	(18.6)	(19.0)	(20.1)	(16.7)	(11.2)
NET INCOME	51.4(2)	36.8	23.6(3)	0.4	31.9(4)
EARNINGS PER SHARE-BASIC	\$ 3.07	\$ 2.25	\$ 1.46	\$ 0.02	\$ 2.02
EARNINGS PER SHARE-DILUTED	\$ 2.96(2)	\$ 2.20	\$ 1.45(3)	\$ 0.02	\$ 1.97(4)
WEIGHTED AVERAGE SHARES					
OUTSTANDING-BASIC	16.7	16.4	16.2	16.0	15.8
OUTSTANDING-DILUTED	18.6	16.7	16.4	16.3	16.2
BALANCE SHEET DATA					
(END OF YEAR):					
WORKING CAPITAL	\$253.9	\$222.4	\$201.0	\$215.7	\$177.1
TOTAL ASSETS	983.2	842.3	763.6	784.4	673.2
LONG-TERM DEBT	241.1	248.0	243.5	287.9	186.8
TOTAL STOCKHOLDERS' EQUITY	430.0	361.4	318.1	297.5	288.6

- Certain amounts have been reclassified in accordance with EITF Issue 00-10, "Accounting for Shipping and Handling Fees and Costs."
- Fiscal 2000 net income and earnings per diluted share excluding the \$8.5 pre-tax non-recurring charges would have been \$56.8 and \$3.25, respectively.
- Fiscal 1998 net income and earnings per diluted share excluding the \$11.4 pre-tax non-recurring charges and the non-operating gain of \$10.0 would have been \$24.5 and \$1.50, respectively.
- Fiscal 1996 net income and earnings per diluted share excluding the \$24.3 pre-tax non-recurring charges would have been \$46.8 and \$2.85, respectively.

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

GENERAL

Scholastic is a global children's publishing and media company. The Company has 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. Such segment classification reflects the nature of the Company's products and services consistent with how the chief operating decision maker assesses operating performance and allocates resources. Certain prior year amounts have been reclassified to conform with the current year presentation. The following discussion and analysis of the Company's financial position should be read in conjunction with the Company's Consolidated Financial Statements, the related Notes and the Selected Financial Data included in this report.

OVERVIEW

During the three-year period ended May 31, 2000, the Company reported revenue growth with significant improvement in net income, operating margins and earnings per share. This improved performance reflects the Company's efforts to manage its core business, capital expenditures and costs.

On June 22, 2000, the Company acquired Grolier Incorporated ("Grolier") for \$400 million in cash (See Item 7 - Subsequent Events). During fiscal 2001, the Company plans to maintain its overall strategic objective of strengthening and developing its core businesses. Over the next years, the Company will seek to build shareholder value through continued revenue growth coupled with improved margins, while funding strategic initiatives such as developing internet opportunities.

RESULTS OF OPERATIONS

FOR FISCAL YEARS ENDED MAY 31, (AMOUNTS IN MILLIONS, EXCEPT PER SHARE DATA)

	2000		1999		1998	
	\$	% (1)	\$	% (1)	\$	% (1)
REVENUES(2):						
CHILDREN'S BOOK PUBLISHING AND DISTRIBUTION	872.4	62.2	667.2	57.2	562.9	52.6
EDUCATIONAL PUBLISHING	219.8	15.7	203.8	17.5	210.6	19.7
MEDIA, LICENSING AND ADVERTISING	104.3	7.4	103.5	8.9	99.9	9.3
INTERNATIONAL	206.0	14.7	191.0	16.4	196.4	18.4
TOTAL REVENUES	1,402.5	100.0	1,165.5	100.0	1,069.8	100.0
COST OF GOODS SOLD(2)	678.3	48.4	571.9	49.1	548.2	51.2
GROSS PROFIT	724.2	51.6	593.6	50.9	521.6	48.8
SELLING, GENERAL AND ADMINISTRATIVE COSTS	592.6	42.3	493.3	42.3	440.3	41.2
NON-RECURRING CHARGES	8.5	0.6	--	--	11.4	1.1
OPERATING INCOME	99.0	7.1	77.9	6.7	48.2	4.5
INCOME BEFORE TAXES	80.4	5.7	58.9	5.1	38.1	3.6
NET INCOME	51.4(3)	3.7	36.8	3.2	23.6(4)	2.2
EARNINGS PER SHARE:						
BASIC	3.07		2.25		1.46	
DILUTED	2.96(3)		2.20		1.45(4)	

(1) Represents percentage of total revenues.

(2) Certain amounts have been reclassified in accordance with EITF Issue No. 00-10, "Accounting for Shipping and Handling Fees and Costs."

(3) Fiscal 2000 net income and earnings per diluted share excluding the \$8.5 pre-tax non-recurring charges would have been \$56.8 and \$3.25, respectively.

(4) Fiscal 1998 net income and earnings per diluted share excluding the \$11.4 pre-tax non-recurring charges and non-operating gain of \$10.0 would have been \$24.5 and \$1.50, respectively.

RESULTS OF OPERATIONS - CONSOLIDATED

Revenue in fiscal 2000 grew significantly, increasing \$237.0 million or 20.3%, from fiscal 1999. Revenue growth in fiscal 1999 was \$95.7 million, or 8.9%, when compared to fiscal 1998. The revenue growth in fiscal 2000 was driven primarily by the Company's CHILDREN'S BOOK PUBLISHING AND DISTRIBUTION segment, which accounted for 62.2% of the Company's revenues in fiscal 2000, versus 57.2% and 52.6% in fiscal 1999 and 1998, respectively.

Gross profit margin improved to 51.6% for fiscal 2000, up approximately one percentage point from fiscal 1999, and up approximately three percentage points from fiscal 1998. This trend reflects the Company's continued focus on cost containment in the manufacturing and distribution process and favorable paper prices, combined with improved sales mix in the Company's CHILDREN'S BOOK PUBLISHING AND DISTRIBUTION segment.

Operating income increased over the prior fiscal years by \$21.1 million in fiscal 2000 and \$29.7 million in fiscal 1999. In the second quarter of fiscal 2000, the Company incurred non-recurring charges of \$8.5 million related to the establishment of a litigation reserve and the liquidation of certain stock options. Excluding the non-recurring charges, the operating margin in fiscal 2000 would have been 7.7% of revenues. In the third quarter of fiscal 1998, the Company incurred non-recurring charges of \$11.4 million related to the impairment of certain assets including unamortized prepublication costs and inventory. Excluding the charges, the operating margin for fiscal 1998 would have been 5.6% of sales.

Selling, general and administrative costs as a percentage of fiscal 2000 revenues did not change from the prior fiscal year. Selling, general and administrative costs increased as a percentage of sales to 42.3% in fiscal 1999 from 41.2% in fiscal 1998 due primarily to increased information technology spending and planned expansion of internet development spending.

Results for fiscal 1998 include a non-operating pre-tax gain of \$10.0 million resulting from the January 1998 sale of the Company's SMALL OFFICE HOME OFFICE GROUP ("SOHO Group"), for \$19.2 million.

Net interest expense decreased slightly to \$18.6 million in fiscal 2000 from \$19.0 million in fiscal 1999 primarily reflecting lower average debt levels. Fiscal 1999 interest expense was \$1.1 million less than in fiscal 1998, as a result of lower weighted average interest rates and lower debt levels compared to the prior year.

Operating margin improvements from 4.5% in fiscal 1998 to 6.7% in fiscal 1999 and 7.1% in fiscal 2000 were primarily due to favorable sales mix, benefits of the Company's cost containment program and lower manufacturing costs.

The Company's effective tax rates were 36.1%, 37.5% and 38.1% of earnings before taxes, for fiscal years 2000, 1999 and 1998, respectively. The decreasing trend from fiscal 1998 reflects the impact of lower relative state and local tax burdens.

Net income was \$51.4 million in fiscal 2000, \$36.8 million in fiscal 1999 and \$23.6 million in fiscal 1998. The basic and diluted earnings per Class A and Common Share were \$3.07 and \$2.96, respectively, in fiscal 2000, \$2.25 and \$2.20, respectively, in fiscal 1999 and \$1.46 and \$1.45, respectively, in fiscal 1998. Diluted net income per share, excluding the non-recurring charges and non-operating gain, was \$3.25 in fiscal 2000, \$2.20 (unchanged) in fiscal 1999, and \$1.50 in fiscal 1998.

RESULTS OF OPERATIONS - SEGMENTS

CHILDREN'S BOOK PUBLISHING AND DISTRIBUTION

The Company's CHILDREN'S BOOK PUBLISHING AND DISTRIBUTION segment includes the publication and distribution of children's books in and from the United States through school book clubs, continuity programs, school book fairs and the trade channel.

(AMOUNTS IN MILLIONS)

	2000	1999	1998
REVENUES	\$ 872.4	\$ 667.2	\$ 562.9
OPERATING PROFIT	169.6	111.9	82.6
OPERATING MARGIN	19.4%	16.8%	14.7%

CHILDREN'S BOOK PUBLISHING AND DISTRIBUTION revenues accounted for 62.2% of the Company's revenues in fiscal 2000, 57.2% in fiscal 1999 and 52.6% in fiscal 1998. These revenues increased 30.8% to \$872.4 million in fiscal 2000 from \$667.2 million in fiscal 1999. The Company's trade distribution channel accounted for 26.4% of CHILDREN'S BOOK PUBLISHING AND DISTRIBUTION sales in fiscal 2000, as compared to 17.0% in fiscal 1999 and 14.9% in fiscal 1998. Net trade sales more than doubled in fiscal 2000 due to the success of HARRY POTTER, the licensed property, POKEMON, and other book series including DEAR AMERICA, I SPY and CAPTAIN UNDERPANTS. Trade sales for fiscal 1999 increased by 35.1% due to the success of Scholastic branded book properties, including ANIMORPHS, DEAR AMERICA, I SPY, CLIFFORD THE BIG RED DOG and HARRY POTTER, as well as titles based on licensed properties such as STAR WARS and TELETUBBIES. School book club revenues accounted for 37.5% of CHILDREN'S BOOK PUBLISHING AND DISTRIBUTION sales in fiscal 2000. Revenues from school book clubs increased 16.4% in fiscal 2000 and 12.9% in fiscal 1999 reflecting growth in the number of orders and

revenue per order. Home continuity programs represented 9.2% of CHILDREN'S BOOK PUBLISHING AND DISTRIBUTION and increased 8.8% in fiscal 2000 compared to the prior fiscal year. Revenues from school book fairs accounted for 26.9% of

CHILDREN'S BOOK PUBLISHING AND DISTRIBUTION sales in fiscal 2000. Sales growth for school book fairs of 18.1% in fiscal 2000 and 19.8% in fiscal 1999 was due in part to an increased number of fairs and in part to an increase in revenue per fair which resulted from broader product offerings. In fiscal 1999, growth in the number of fairs was primarily due to the benefit of the June 1998 acquisition of the assets of Pages Book Fairs Inc.

Operating income for CHILDREN'S BOOK PUBLISHING AND DISTRIBUTION increased \$87.0 million over the three fiscal years ended May 31, 2000 to \$169.6 million or 19.4% of sales. Operating income for the segment was \$111.9 million or 16.8% of sales for fiscal 1999 and \$82.6 million or 14.7% of sales for fiscal 1998, respectively. Operating margins improved largely as a result of sales mix and the benefit of cost reductions in manufacturing and fulfillment activities in both fiscal 2000 and fiscal 1999. Selling, general and administrative costs as a percentage of revenue decreased from 37.1% in fiscal 1999 to 34.4% in fiscal 2000, due primarily to the significant increase in trade revenues, which incurs lower costs relative to the other operations included in this segment.

EDUCATIONAL PUBLISHING

The Company's EDUCATIONAL PUBLISHING segment includes the publication and distribution of K to 12 textbooks, supplemental materials, classroom magazines, teaching resources and instructional technology in and from the United States to schools and libraries.

(Amounts in millions)

	2000	1999	1998
REVENUES	\$ 219.8	\$ 203.8	\$ 210.6
OPERATING (LOSS)/PROFIT	(10.7)	2.4	0.4

OPERATING MARGIN	*	1.2%	0.2%
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* not meaningful

EDUCATIONAL PUBLISHING revenues accounted for 15.7% of the Company's revenues in fiscal 2000, 17.5% in fiscal 1999 and 19.7% in fiscal 1998. In fiscal 2000, EDUCATIONAL PUBLISHING revenues increased 7.9% to \$219.8 million from \$203.8 million in fiscal 1999 and revenues related to sales of core and supplemental instructional materials to schools held steady at 74.7% of EDUCATIONAL PUBLISHING revenues. The revenue increase in fiscal 2000 was primarily due to higher sales of supplemental materials, sales of the Company's new reading intervention program (READ 180), and increased sales of SCHOLASTIC READING COUNTS!. This increase was partially offset by anticipated lower SCHOLASTIC LITERACY PLACE sales in a year with limited reading program adoptions. In fiscal 1999, EDUCATIONAL PUBLISHING revenues decreased 3.2% from \$210.6 million in fiscal 1998. Revenues related to sales of core and supplemental instructional materials decreased 5.4% from fiscal 1998 primarily due to the wind down of the California adoption of SCHOLASTIC LITERACY PLACE. This decrease was partially offset by increased sales of supplemental instructional materials.

EDUCATIONAL PUBLISHING operating results decreased \$13.1 million from a profit of \$2.4 million in fiscal 1999, to a loss of \$10.7 million in fiscal 2000. The decline in margins in fiscal 2000 was primarily the result of the promotion and selling and administrative costs associated with the Texas reading campaign and the launch costs related to READ 180. Fiscal 1999 operating income of \$2.4 million (1.2% of sales) represented an improvement of \$2.0 million from \$0.4 million in fiscal 1998. Fiscal 1998 included the effect of an \$8.3 million non-recurring charge related to the impairment of certain EDUCATIONAL PUBLISHING assets. Excluding the effect of this charge, operating income decreased \$6.3 million from \$8.7 million in fiscal 1998 to \$2.4 million in fiscal 1999. In fiscal 1999, promotion and other selling and general administration costs associated with the launch of SCHOLASTIC READING COUNTS! were primarily responsible for the decline in margins.

MEDIA, LICENSING AND ADVERTISING

The Company's MEDIA, LICENSING AND ADVERTISING segment includes the production and distribution of programming and consumer products (including children's television programming, videos, CD-ROM's, feature films and non-book products) and internet services as well as advertising and promotional activities.

(AMOUNTS IN MILLIONS)

	2000	1999	1998
REVENUES	\$ 104.3	\$ 103.5	\$ 99.9
OPERATING PROFIT/(LOSS)	(10.3)	(2.7)	(7.4)

OPERATING MARGIN	*	*	*
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* not meaningful

MEDIA, LICENSING AND ADVERTISING revenues accounted for 7.4% of the Company's revenues in fiscal 2000, 8.9% in fiscal 1999 and 9.3% in fiscal 1998. In fiscal 2000, increased revenue from consumer magazines and software sales were offset by declines in entertainment revenues and multimedia product sales. In fiscal 1999, increased sales of software, multimedia products and licensed merchandise were partially offset by the absence of revenues of \$11.8 million due to the January 1, 1998, sale of the Company's SOHO Group.

Operating losses for the MEDIA, LICENSING AND ADVERTISING segment in fiscal 2000 reached \$10.3 million, compared to a \$2.7 million loss in fiscal 1999 and a \$7.4 million loss in fiscal 1998. These results reflect increased promotional, editorial and other operating costs associated with the development of Scholastic.com. The improvement in fiscal 1999 was largely the result of strong software product sales in the school book club and school book fair selling channels combined with improved product cost efficiencies.

INTERNATIONAL

The INTERNATIONAL segment includes the publication and distribution of products and services outside the United States by the Company's operations in the United Kingdom, Canada, Australia and New Zealand and its newer businesses in Mexico, India, Ireland and Argentina. For the year ended May 31, 2000, 88.3% of the Company's INTERNATIONAL revenues were derived from the sale of children's books.

(AMOUNTS IN MILLIONS)

	2000	1999	1998
REVENUES	\$ 206.0	\$ 191.0	\$ 196.4
OPERATING PROFIT	6.4	4.9	9.7
OPERATING MARGIN	3.1%	2.6%	4.9%

INTERNATIONAL sales accounted for 14.7% of the Company's revenues in fiscal 2000, 16.4% in fiscal 1999 and 18.4% in fiscal 1998. INTERNATIONAL revenues increased 7.9% from \$191.0 million in fiscal 1999 to \$206.0 million in fiscal 2000. Revenues from the Company's Canadian and Australian operations increased, with growth in the trade, book club and book fairs channels. This increase was partially offset by a sales decline in the United Kingdom, principally in the book club and book fair channels in part, due to the Company's decision to discontinue an unprofitable sales channel. In fiscal 2000, revenues in the United Kingdom and New Zealand were adversely impacted by weakness in their respective currencies relative to the stronger U.S. dollar. In fiscal 1999, INTERNATIONAL revenues decreased 2.7% from \$196.4 million in fiscal 1998 reflecting the impact of lower United Kingdom sales in the book club, book fairs and trade channels. In both fiscal 1999 and fiscal 1998, revenues in Canada, Australia and New Zealand were adversely impacted by weakness in their respective currencies relative to the stronger U.S. dollar.

INTERNATIONAL operating income increased \$1.5 million to \$6.4 million (3.1% of sales) in fiscal 2000 from \$4.9 million in fiscal 1999 (2.6% of sales) due to revenue increases in Canada and Australia. These increases were offset by certain charges incurred in the Company's United Kingdom operations as well as the adverse impact of foreign currency exchange rates. Together these charges and adverse foreign currency exchange rates totaled approximately \$2.0 million. During fiscal 1999, the Company's Australian subsidiary was impacted by increased cost of product as a result of changes in product mix and higher product costs for United States dollar denominated purchases. Also, during fiscal 1999, the Canadian subsidiary incurred additional costs related to the opening of its new distribution facility.

SEASONALITY

The Company's book clubs, book fairs and most of its magazines operate on a school-year basis; therefore, the Company's business is highly seasonal. As a consequence, generally, the Company's revenues in the first and third quarters of the fiscal year are lower than its revenues in the other two fiscal quarters, and the Company experiences a substantial loss from operations in the first quarter. Typically, book clubs and book fairs experience the largest revenues in the second quarter of the fiscal year, while revenues from the sale of instructional materials are highest in the first quarter.

For the June through October time period, the Company experiences negative cash flow due to the seasonality of its business. Historically, as a result of the Company's business cycle, seasonal borrowings have increased during June, July and August, have generally peaked in September or October, and have been at the lowest point in May. The Grolier acquisition is not expected to significantly change the seasonality of the Company's results. (See Item 8, Supplementary Financial Information).

LIQUIDITY AND CAPITAL RESOURCES

The Company's cash and cash equivalents increased to \$9.0 million for fiscal year 2000, an increase of \$3.1 million over fiscal 1999 and \$3.9 million over fiscal 1998.

Cash flow provided from operations was \$146.2 million resulting from increased revenue and improved operating margins partially offset by working capital increases to support business growth. Within working capital, inventory increased reflecting a management decision to accelerate paper inventory purchases to take advantage of opportunistic pricing and to increase SCHOLASTIC LITERARY PLACE inventory in advance of this summer's Texas adoption.

Cash outflows for investing activities were \$145.2 million for fiscal 2000, primarily related to prepublication costs, capital expenditures, royalty advances and production cost expenditures. Prepublication expenditures totaled \$61.4 million, increasing \$14.6 million from fiscal 1999, largely due to higher investments in core publishing and technology-based products, including the scheduled revision to SCHOLASTIC LITERACY PLACE and SCHOLASTIC SOLARES and the development of READ 180. The Company's capital expenditures totaled \$46.0 million in fiscal 2000. Capital expenditures, including capitalized interest, increased \$16.4 million from fiscal 1999 primarily due to the expansion of the Company's corporate headquarters. The Company expects increases in its fiscal 2001 capital expenditures resulting from the completion of the Company's expanded headquarters and the continued development of the Company's e-commerce capabilities. For fiscal 2000, payments for royalty advances totaled \$23.4 million.

The Company believes its existing cash position, combined with funds generated

from operations and available under the amended Loan Agreement and the Revolver,
will be sufficient to

finance its ongoing working capital requirements, including the Grolier operations, for the next fiscal year.

FINANCING

The Company maintains two unsecured credit facilities, the Loan Agreement and the Revolver, which provide for aggregate borrowings of up to \$210.0 million (with a right, in certain circumstances, to increase to \$240.0 million), including the issuance of up to \$10.0 million in letters of credit. Both the Loan Agreement and Revolver expire on August 11, 2004. The Company uses these facilities to fund seasonal cash flow needs and other working capital requirements. At May 31, 2000, the Company had \$5.6 million in borrowings outstanding under these facilities at a weighted average interest rate of 8.5%.

In addition, unsecured lines of credit available to the Company's United Kingdom, Canadian and Australian operations totaled \$37.1 million at May 31, 2000. These lines are used primarily to fund local working capital needs. At May 31, 2000, \$8.5 million in borrowings were outstanding under these lines at a weighted average interest rate of 6.4%.

To finance the June 22, 2000 acquisition of Grolier, the Company borrowed \$350.0 million under a new unsecured loan agreement and also borrowed \$50.0 million under its existing Loan Agreement. (See Item 7 - Subsequent Events).

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. Consistent with this strategy, in June 1998 the Company acquired certain assets of Pages Book Fairs, Inc. for approximately \$10.5 million, and in January 1999, acquired certain assets of Quality Education Data. On June 22, 2000 the Company consummated the acquisition of Grolier for \$400.0 million in cash. (See Item 7 - Subsequent Events).

YEAR 2000

The Company completed the implementation of its year 2000 remediation plan on a timely basis and such remediation plan, as implemented, addressed all mission critical systems. The Company is not aware of any adverse effects of year 2000 issues on the Company's systems and operations, as well as its vendor, customer and service provider relationships.

The total cost of the Company's Year 2000 program, was approximately \$12.4 million, of which \$4.4 million was incurred during fiscal 2000. No additional material program costs are anticipated in fiscal 2001.

NEW ACCOUNTING PRONOUNCEMENTS

The Company has adopted the provisions of EITF Issue No. 00-10, "Accounting for Shipping and Handling Fees and Costs". This consensus states that all shipping and handling billings to a customer in a sale transaction represent the fees earned for the goods provided and, accordingly, amounts billed related to shipping and handling should be classified as revenue. All prior revenues and expenses have been reclassified to conform to this consensus.

In June 1998, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 133 ("SFAS 133"), "Accounting for Derivative Instruments and Hedging Activities." SFAS 133 requires all derivatives to be recorded on the balance sheet at fair value and establishes special accounting for the following three different types of hedges: hedges of changes in the fair value of assets, liabilities, or firm commitments (fair value hedges); hedges of the variable cash flows of forecasted transactions (cash flow hedges); and hedges of foreign currency exposures of net investments in foreign operations. Though the accounting treatment and criteria for each of the three types of hedges is unique, they all result in offsetting changes in fair values or cash flows of both the hedge and the hedged item recognized in earnings or in accumulated comprehensive income in the same period. Changes in the fair value of derivatives that do not meet the criteria of one of these three categories of hedges are included in income. The Company does not expect, based upon its current assessment, that the adoption of SFAS 133 will have a material impact on its financial position, results of operations or cash flows. The Company is required to adopt the provisions of the standard in the first quarter of fiscal 2002.

In December 1999, the Securities and Exchange Commission issued Staff Accounting Bulletin 101 ("SAB 101"), "Revenue Recognition in Financial Statements." The SAB provides the SEC's views in applying generally accepted accounting principles to selected revenue recognition issues. The Company is required to adopt the provisions of the SAB no later than the fourth quarter of fiscal 2001. The Company does not expect that the adoption of SAB 101 will have a material impact on its financial position, result of operations or cash flows.

In June 2000, the Accounting Standards Executive Committee issued Statement of Position No. 00-2 ("SOP 00-2"), "Accounting by Producers or Distributors of Films." SOP 00-2 replaces the Statement of Financial Accounting Standards No. 53 ("SFAS 53"), "Financial Reporting by Producers and Distributors of Motion Picture Films." This SOP concluded that film costs should

be accounted for under an inventory model and discusses various topics such as revenue recognition, fee allocation in multiple films, accounting for exploitation costs and impairment assessment. The Company is required to adopt the provisions of SOP 00-2 in the first quarter of fiscal 2002. The Company does not expect that the adoption of SOP 00-2 will have a material impact on its financial position, result of operations or cash flows.

SUBSEQUENT EVENTS

On June 22, 2000, pursuant to a Stock Purchase Agreement dated as of April 13, 2000 and as amended, Scholastic Inc. acquired all of the issued and outstanding capital stock of Grolier Incorporated ("Grolier"), a Delaware corporation, for \$400.0 million in cash. No Grolier debt was assumed by the Company in connection with the acquisition. The Company is accounting for the acquisition under the purchase method of accounting. Grolier's business activities will be included in the Company's CHILDREN'S BOOK PUBLISHING AND DISTRIBUTION, EDUCATIONAL PUBLISHING and INTERNATIONAL segments.

Grolier is the leading operator of United States direct-to-home book clubs for children, primarily serving children age five and under, and is the leading print and on-line publisher of children's non-fiction and reference products (including the Children's Press and Franklin Watts imprints in the United States and major encyclopedias) sold primarily to United States school libraries. Grolier also has significant international operations in the United Kingdom, Canada and Southeast Asia. Grolier also publishes books in the United States under the Orchard Books imprint for distribution through the trade channel.

The acquisition was financed by the Company using bank debt. Of the \$400.0 million Grolier purchase price, \$350.0 million was borrowed under a new credit facility (the "Grolier Facility") entered into to finance the acquisition and \$50.0 million was borrowed under the Company's existing Loan Agreement. (See Note 3 of Notes to Consolidated Financial Statements).

The Grolier Facility is a 364-day facility and may be extended for an additional year. Borrowings bear interest either at the prime rate or 0.39% to 1.10% over LIBOR. The Grolier Facility also provides for a facility fee ranging from 0.085% to 0.25%. The amounts charged vary based on the Company's credit rating. Based on the Company's credit rating at June 22, 2000, the interest rate and facility fee charged were 0.575% over LIBOR and 0.125%, respectively.

Effective as of June 22, 2000, the Company's Loan Agreement and Revolver were amended to adjust for the Company's increased debt levels resulting from the acquisition of Grolier. (See Note 3 of Notes to Consolidated Financial Statements).

The Board of Directors of the Company has recommended that the Company's Amended and Restated Certificate of Incorporation be amended to increase the number of shares of authorized Common Stock to 70,000,000 shares and Preferred Stock to 2,000,000 shares, subject to the approval of the company's stockholders entitled to vote thereon at the Company's Annual Meeting of Stockholders. If approved, this amendment would increase the number of authorized shares of capital stock of the Company to 74,500,000 shares, consisting of 70,000,000 shares of Common Stock and 2,000,000 shares of Preferred Stock, together with the previously authorized 2,500,000 shares of Class A stock.

FACTORS THAT MAY AFFECT FUTURE RESULTS AND FINANCIAL CONDITION

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 Securities and Exchange Commission ("SEC") filings and otherwise. The Company cautions readers that results predicted by forward-looking statements, including, without limitation, those relating to the Company's future business prospects, revenues, working capital, liquidity, capital needs, interest costs and income, are subject to certain risks and uncertainties that could cause actual results to differ materially from those indicated in the forward-looking statements, due to factors including the following and other risks and factors identified from time to time in the Company's filings with the SEC:

- o The Company's ability to continue to produce successful educational, trade, entertainment and software products;
- o The ability of the Company's clubs and fairs to continue to successfully meet market needs;
- o The Company's ability to maintain relationships with its creative talent;
- o Changes in purchasing patterns in and the strength of educational, trade, entertainment and software markets;
- o Competition from other educational and trade publishers and media, entertainment and internet companies;
- o Significant changes in the publishing industry, especially relating to the distribution and sale of books;
- o The effect on the Company of volatility in the price of paper and periodic increases in postage rates;
- o The Company's ability to effectively use the internet to support its existing businesses and to launch successful new internet initiatives;

- o The general risks attendant to the conduct of business in foreign countries;
- o The general risks inherent in the market impact of rising interest rates with regard to its variable debt facilities; and
- o The Company's ability to successfully integrate the Grolier acquisition and to achieve the savings and cross-selling opportunities it has identified.

The foregoing list of factors should not be construed as exhaustive or as an 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 7A QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The Company has operations in various foreign countries. In the normal course of business, these operations are exposed to fluctuations in currency values. Management believes that the impact of currency fluctuations do not represent a significant risk in the context of the Company's current international operations. The Company does not generally enter into derivative financial instruments in the normal course of business, nor are such instruments used for speculative purposes.

Market risks relating to the Company's operations result primarily from changes in interest rates. At May 31, 2000, the majority of the Company's long-term debt bore interest at a fixed rate. However, the fair market value of the fixed rate debt is sensitive to changes in interest rates. The Company is subject to the risk that market interest rates will decline and the interest rates under the fixed rate debt will exceed the then prevailing market rates. Under its current policies, the Company does not utilize any interest rate derivative instruments to manage its exposure to interest rate changes.

On June 22, 2000, the Company borrowed \$350.0 million to finance the acquisition of Grolier under a new credit facility which is subject to market rate risk which will change the Company's overall market risk exposure in future periods. (See Note 12 of Notes to Consolidated Financial Statements).

At May 31, 2000, the balance outstanding under the facilities which have variable rates was \$5.6 million, at a weighted-average interest rate of 8.5%. A 15% increase or decrease in the average interest rate on the Company's variable rate debt at May 31, 2000 would not have had a significant impact on the Company's results of operations.

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.

ITEM 8 CONSOLIDATED FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

Index to Consolidated Financial Statements and Financial Statement Schedule	PAGE(S)
Consolidated Statement of Income for the three years ended May 31, 2000, 1999 and 1998	19
Consolidated Balance Sheet at May 31, 2000 and 1999	20-21
Consolidated Statement of Changes in Stockholders' Equity and Comprehensive Income for the three years ended May 31, 2000, 1999 and 1998	22
Consolidated Statement of Cash Flows for the three years ended May 31, 2000, 1999 and 1998	23
Notes to Consolidated Financial Statements	24-34
Report of Independent Auditors	35
Supplementary Financial Information -- Summary of Quarterly Results of Operations (unaudited)	36
The following consolidated financial statement schedule for the three years ended May 31, 2000, 1999 and 1998 is included in Item 14(d):	
Schedule II-- Valuation and Qualifying Accounts and Reserves	46

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

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CONSOLIDATED STATEMENT OF INCOME

YEARS ENDED MAY 31, (AMOUNTS IN MILLIONS, EXCEPT PER SHARE DATA)

	2000	1999	1998
REVENUES	\$1,402.5	\$1,165.5	\$1,069.8
OPERATING COSTS AND EXPENSES:			
COST OF GOODS SOLD	678.3	571.9	548.2
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES	592.6	493.3	440.3
OTHER OPERATING COSTS:			
DEPRECIATION	19.7	16.9	15.0
GOODWILL AND TRADEMARK AMORTIZATION	4.4	5.5	6.7
NON-RECURRING CHARGES	8.5	--	11.4
TOTAL OPERATING COSTS AND EXPENSES	1,303.5	1,087.6	1,021.6
OPERATING INCOME	99.0	77.9	48.2
SALE OF SOHO GROUP	--	--	10.0
INTEREST EXPENSE, NET	(18.6)	(19.0)	(20.1)
EARNINGS BEFORE INCOME TAXES	80.4	58.9	38.1
PROVISION FOR INCOME TAXES	29.0	22.1	14.5
NET INCOME	\$ 51.4	\$ 36.8	\$ 23.6
EARNINGS PER CLASS A AND COMMON SHARE:			
BASIC	\$ 3.07	\$ 2.25	\$ 1.46
DILUTED	\$ 2.96	\$ 2.20	\$ 1.45

See accompanying notes

CONSOLIDATED BALANCE SHEET

BALANCES AT MAY 31, (AMOUNTS IN MILLIONS, EXCEPT SHARE AND PER SHARE DATA)

ASSETS	2000	1999
CURRENT ASSETS:		
CASH AND CASH EQUIVALENTS	\$ 9.0	\$ 5.9
ACCOUNTS RECEIVABLE (LESS ALLOWANCE FOR DOUBTFUL ACCOUNTS OF \$14.7 AT MAY 31, 2000 AND \$12.3 AT MAY 31, 1999)	153.7	136.4
INVENTORIES	290.7	227.4
DEFERRED INCOME TAXES	57.2	41.8
PREPAID AND OTHER CURRENT ASSETS	29.1	22.7
TOTAL CURRENT ASSETS	539.7	434.2
PROPERTY, PLANT AND EQUIPMENT:		
LAND	7.0	6.7
BUILDINGS	41.4	40.1
FURNITURE, FIXTURES AND EQUIPMENT	115.7	97.9
LEASEHOLD IMPROVEMENTS	90.8	72.9
	254.9	217.6
LESS ACCUMULATED DEPRECIATION AND AMORTIZATION	(78.5)	(65.4)
NET PROPERTY, PLANT AND EQUIPMENT	176.4	152.2
OTHER ASSETS AND DEFERRED CHARGES:		
PREPUBLICATION COSTS	116.1	95.3
GOODWILL AND TRADEMARKS	66.4	71.1
ROYALTY ADVANCES	48.7	54.4
PRODUCTION COSTS	14.2	9.0
OTHER	21.7	26.1
TOTAL OTHER ASSETS AND DEFERRED CHARGES	267.1	255.9
TOTAL ASSETS	\$983.2	\$842.3

LIABILITIES AND STOCKHOLDERS' EQUITY	2000	1999
CURRENT LIABILITIES:		
LINES OF CREDIT AND CURRENT PORTION OF LONG-TERM DEBT	\$ 8.7	\$ 18.2
ACCOUNTS PAYABLE	129.7	97.0
ACCRUED ROYALTIES	32.8	23.7
ACCRUED TAXES	23.8	7.7
DEFERRED REVENUE	10.3	6.7
OTHER ACCRUED EXPENSES	80.5	58.5
TOTAL CURRENT LIABILITIES	285.8	211.8
NONCURRENT LIABILITIES:		
LONG-TERM DEBT	241.1	248.0
OTHER NONCURRENT LIABILITIES	26.3	21.1
TOTAL NONCURRENT LIABILITIES	267.4	269.1
COMMITMENTS AND CONTINGENCIES	--	--
STOCKHOLDERS' EQUITY:		
PREFERRED STOCK, \$1.00 PAR VALUE		
AUTHORIZED-1,000,000 SHARES; ISSUED-NONE	--	--
CLASS A STOCK, \$.01 PAR VALUE		
AUTHORIZED-2,500,000 SHARES; ISSUED-828,100 SHARES	0.0	0.0
COMMON STOCK, \$.01 PAR VALUE		
AUTHORIZED-25,000,000 SHARES; ISSUED-17,027,190		
SHARES (16,946,803 SHARES AT MAY 31, 1999)	0.2	0.2
ADDITIONAL PAID-IN CAPITAL	222.7	212.3
ACCUMULATED OTHER COMPREHENSIVE LOSS:		
FOREIGN CURRENCY TRANSLATION ADJUSTMENT	(11.1)	(5.7)
RETAINED EARNINGS	242.8	191.4
LESS 851,006 SHARES (1,301,658 SHARES AT MAY 31, 1999)		
OF COMMON STOCK IN TREASURY, AT COST	(24.6)	(36.8)
TOTAL STOCKHOLDERS' EQUITY	430.0	361.4
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$ 983.2	\$ 842.3

See accompanying notes

CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY AND
COMPREHENSIVE INCOME

YEARS ENDED MAY 31, 2000, 1999 AND 1998 (AMOUNTS IN MILLIONS, EXCEPT SHARE DATA)

	CLASS A STOCK	COMMON STOCK	ADDITIONAL PAID-IN CAPITAL	ACCUMULATED OTHER COMPREHENSIVE LOSS	RETAINED EARNINGS	TREASURY STOCK	TOTAL STOCKHOLDERS' EQUITY
BALANCE AT JUNE 1, 1997	\$ 0.0	\$ 0.2	\$ 203.8	\$ (0.7)	\$ 131.0	\$ (36.8)	\$ 297.5
COMPREHENSIVE INCOME:							
NET INCOME					23.6		23.6
OTHER COMPREHENSIVE LOSS:							
FOREIGN CURRENCY TRANSLATION ADJUSTMENT				(4.3)			(4.3)
TOTAL COMPREHENSIVE INCOME							19.3
PROCEEDS FROM ISSUANCE OF COMMON STOCK PURSUANT TO EMPLOYEE STOCK PLANS (69,500 SHARES ISSUED)		0.0	0.7				0.7
TAX BENEFIT REALIZED FROM STOCK OPTION TRANSACTIONS			0.6				0.6
BALANCE AT MAY 31, 1998	0.0	0.2	205.1	(5.0)	154.6	(36.8)	318.1
COMPREHENSIVE INCOME:							
NET INCOME					36.8		36.8
OTHER COMPREHENSIVE LOSS:							
FOREIGN CURRENCY TRANSLATION ADJUSTMENT				(0.7)			(0.7)
TOTAL COMPREHENSIVE INCOME							36.1
PROCEEDS FROM ISSUANCE OF COMMON STOCK PURSUANT TO EMPLOYEE STOCK PLANS (205,613 SHARES ISSUED)		0.0	5.8				5.8
TAX BENEFIT REALIZED FROM STOCK OPTION TRANSACTIONS			1.4				1.4
BALANCE AT MAY 31, 1999	0.0	0.2	212.3	(5.7)	191.4	(36.8)	361.4
COMPREHENSIVE INCOME:							
NET INCOME					51.4		51.4
OTHER COMPREHENSIVE LOSS:							
FOREIGN CURRENCY TRANSLATION ADJUSTMENT				(5.4)			(5.4)
TOTAL COMPREHENSIVE INCOME							46.0
PROCEEDS FROM ISSUANCE OF COMMON STOCK PURSUANT TO EMPLOYEE STOCK PLANS (531,039 SHARES ISSUED, 450,652 SHARES FROM TREASURY STOCK, NET OF 25,072 SHARES SURRENDERED)		0.0	6.3			12.2	18.5
TAX BENEFIT REALIZED FROM STOCK OPTION TRANSACTIONS			4.1				4.1
BALANCE AT MAY 31, 2000	\$ 0.0	\$ 0.2	\$ 222.7	\$ (11.1)	\$ 242.8	\$ (24.6)	\$ 430.0

See accompanying notes

CONSOLIDATED STATEMENT OF CASH FLOWS

YEARS ENDED MAY 31, (AMOUNTS IN MILLIONS)

	2000	1999	1998
CASH FLOWS PROVIDED BY OPERATING ACTIVITIES:			
NET INCOME	\$ 51.4	\$ 36.8	\$ 23.6
ADJUSTMENTS TO RECONCILE NET INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:			
DEPRECIATION AND AMORTIZATION	24.1	22.4	21.7
AMORTIZATION OF PREPUBLICATION AND PRODUCTION COSTS	47.3	50.5	42.5
ROYALTY ADVANCES EXPENSED	29.2	21.8	17.7
PROVISION FOR LOSSES ON ACCOUNTS RECEIVABLE	20.5	17.0	14.6
DEFERRED INCOME TAXES	(15.1)	(2.1)	(8.4)
NON-CASH PORTION OF NON-RECURRING CHARGES	8.5	--	11.4
GAIN ON THE SALE OF THE SOHO GROUP	--	--	(10.0)
CHANGES IN ASSETS AND LIABILITIES:			
ACCOUNTS RECEIVABLE	(39.1)	(35.5)	(38.9)
INVENTORIES	(66.8)	(23.3)	13.8
PREPAID AND OTHER CURRENT ASSETS	(6.7)	(4.0)	18.6
ACCOUNTS PAYABLE AND OTHER ACCRUED EXPENSES	50.1	29.6	(2.3)
ACCRUED ROYALTIES	9.2	6.8	9.3
ACCRUED TAXES	16.2	(3.1)	1.8
DEFERRED REVENUE	3.1	(3.7)	3.1
OTHER, NET	14.3	4.4	(0.8)
TOTAL ADJUSTMENTS	94.8	80.8	94.1
NET CASH PROVIDED BY OPERATING ACTIVITIES	146.2	117.6	117.7
CASH FLOWS USED IN INVESTING ACTIVITIES:			
PREPUBLICATION COSTS	(61.4)	(46.8)	(25.4)
ADDITIONS TO PROPERTY, PLANT AND EQUIPMENT	(46.0)	(29.6)	(20.3)
ROYALTY ADVANCES	(23.4)	(27.8)	(31.7)
PRODUCTION COSTS	(13.8)	(13.8)	(13.0)
BUSINESS AND TRADEMARK ACQUISITION-RELATED PAYMENTS	(0.2)	(14.9)	(6.0)
PROCEEDS RECEIVED FROM THE SALE OF THE SOHO GROUP	--	--	19.2
OTHER	(0.4)	(3.9)	(2.0)
NET CASH USED IN INVESTING ACTIVITIES	(145.2)	(136.8)	(79.2)
CASH FLOWS PROVIDED BY (USED IN) FINANCING ACTIVITIES:			
BORROWINGS UNDER LOAN AGREEMENT AND REVOLVER	342.8	269.2	243.9
REPAYMENTS OF LOAN AGREEMENT AND REVOLVER	(347.3)	(264.7)	(288.3)
BORROWINGS UNDER LINES OF CREDIT	122.2	66.9	68.6
REPAYMENTS OF LINES OF CREDIT	(133.1)	(58.7)	(63.6)
PROCEEDS PURSUANT TO EMPLOYEE STOCK PLANS, NET TAX BENEFIT REALIZED FROM STOCK OPTION TRANSACTIONS	4.1	1.4	0.6
OTHER	(3.2)	--	(0.3)
NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES	2.2	19.9	(38.4)
EFFECT OF EXCHANGE RATE CHANGES ON CASH	(0.1)	0.1	0.1
NET INCREASE IN CASH AND CASH EQUIVALENTS	3.1	0.8	0.2
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	5.9	5.1	4.9
CASH AND CASH EQUIVALENTS AT END OF YEAR	\$ 9.0	\$ 5.9	\$ 5.1
SUPPLEMENTAL INFORMATION:			
INCOME TAXES PAID	\$ 17.5	\$ 23.0	\$ 17.1
INTEREST PAID	20.1	20.1	21.5

See accompanying notes

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 and all wholly-owned subsidiaries (the "Company"). All intercompany transactions are eliminated.

USE OF ESTIMATES

The preparation of financial statements, in conformity with generally accepted accounting principles, requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. Actual results could differ from those estimates and assumptions. Significant estimates that affect the financial statements include, but are not limited to, book returns, recoverability of inventory, recoverability of advances to authors, amortization periods, recoverability of prepublication and film production costs and recoverability of other long-lived assets.

CASH EQUIVALENTS

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

INVENTORIES

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

PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment are carried at cost. Depreciation and amortization are provided on the straight-line basis. Buildings have an estimated useful life, for purposes of depreciation, of forty years. Furniture, fixtures and equipment are depreciated over periods not exceeding ten years. Leasehold improvements are amortized over the life of the lease or the life of the assets, whichever is shorter. 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.

OTHER ASSETS AND DEFERRED CHARGES

Prepublication costs are amortized on the straight-line basis over a two- to five-year period commencing with publication. Goodwill and trademarks acquired by the Company are amortized on the straight-line basis over the estimated future periods, which are generally between fifteen and twenty-five years. Royalty advances are expensed as related revenues are earned or when future recovery appears doubtful. Production costs are stated at the lower of cost less amortization or net realizable value. Production costs are amortized in the proportion that current revenues bear to estimated remaining total lifetime revenues.

IMPAIRMENT OF LONG-LIVED ASSETS

The Company evaluates its long-lived assets, including goodwill and trademarks, for impairment whenever events or changes in circumstances indicate that the carrying amount of such assets or intangibles may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of the asset to future net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceed the fair value of the assets as determined by estimated discounted cash flows. Assets to be disposed of are reported at the lower of the carrying amount or fair value less costs to sell.

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.

REVENUE RECOGNITION

Sales of books and software are recognized upon the shipment of product. Sales made on a returnable basis are recorded net of provisions for estimated returns and allowances. A reserve for estimated book returns is established at the time of sale. Actual returns are charged against the reserve as received.

Revenue from magazine subscriptions is deferred at the time of sale. As magazines are delivered to subscribers, proportionate amounts of revenue and related acquisition expenses are recognized.

Revenue from the sale of film rights, principally for the home video and domestic and foreign syndicated television markets, is recognized when the film has been delivered and is available for showing or exploitation. Income from licensing is recorded in accordance with royalty agreements, at the time characters are available to the licensee and collections are reasonably assured.

STOCK-BASED COMPENSATION

The Company has elected to follow Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees" (APB No. 25) in accounting for its employee stock options. Under APB 25, compensation expense is recognized only when the exercise price of options is below the market price of the underlying stock on the date of grant where the exercise price and number of shares subject to grant are fixed.

FOREIGN CURRENCY TRANSLATION

The financial statements of the Company's foreign subsidiaries are translated into United States dollars at the current balance

sheet rates, except that revenues, costs and expenses are translated at average current rates 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 transactions are accumulated and charged directly to the foreign currency translation adjustment component of stockholders' equity.

EARNINGS PER SHARE

Earnings per share are based on the combined weighted-average number of Class A and Common Shares outstanding using the treasury stock method. Potentially dilutive securities are excluded from the computation of diluted earnings per share for the periods in which they have an anti-dilutive effect.

RECLASSIFICATION

Certain prior year amounts have been reclassified to conform to the current year presentation.

RECENT ACCOUNTING PRONOUNCEMENTS

The Company has adopted the provisions of EITF Issue No. 00-10, "Accounting for Shipping and Handling Fees and Costs". This consensus states that all shipping and handling billings to a customer in a sale transaction represent the fees earned for the goods provided and, accordingly, amounts billed related to shipping and handling should be classified as revenue. Certain prior year amounts have been reclassified in accordance with the consensus.

In June 1998, the Financial Accounting Standards Board issued, Statement of Financial Accounting Standards No. 133 ("SFAS 133"), "Accounting for Derivative Instruments and Hedging Activities." SFAS 133 requires all derivatives to be recorded on the balance sheet at fair value and establishes special accounting for the following three different types of hedges: hedges of changes in the fair value of assets, liabilities, or firm commitments (fair value hedges); hedges of the variable cash flows of forecasted transactions (cash flow hedges); and hedges of foreign currency exposures of net investments in foreign operations. Though the accounting treatment and criteria for each of the three types of hedges is unique, they all result in offsetting changes in fair values or cash flows of both the hedge and the hedged item recognized in earnings or in accumulated comprehensive income in the same period. Changes in the fair value of derivatives that do not meet the criteria of one of these three categories of hedges are included in income. The Company does not expect, based upon its current assessment, that the adoption of SFAS 133 will have a material impact on its financial position, results of operations or cash flows. Under SFAS 133, the Company is required to adopt the provisions of this standard in the first quarter of fiscal 2002.

In December 1999, the Securities and Exchange Commission issued Staff Accounting Bulletin ("SAB") 101 ("SAB 101"), "Revenue Recognition in Financial Statements." The SAB provides the SEC's views in applying generally accepted accounting principles to selected revenue recognition issues. The Company is required to adopt the provisions of the SAB no later than the fourth quarter of fiscal 2001. The Company does not expect that the adoption of SAB 101 will have a material impact on its financial position, result of operations or cash flows.

In June 2000, the Accounting Standards Executive Committee issued Statement of Position ("SOP") No. 00-2 ("SOP 00-2"), "Accounting by Producers or Distributors of Films." SOP 00-2 replaces the Statement of Financial Accounting Standards No. 53 ("SFAS 53"), "Financial Reporting by Producers and Distributors of Motion Picture Films." This SOP concluded that film costs should be accounted for under an inventory model and discusses various topics such as revenue recognition, fee allocation in multiple films, accounting for exploitation costs, and impairment assessment. The Company is required to adopt the provisions of SOP 00-2 in the first quarter of fiscal 2002. The Company does not expect that the adoption of SOP 00-2 will have a material impact on its financial position, result of operations or cash flows.

2. SEGMENT INFORMATION

The Company is a global children's publishing and media company with operations in the United States, the United Kingdom, Canada, Australia, New Zealand, Mexico, Hong Kong, India, Ireland and Argentina, and distributes its products and services through a variety of channels, including school book clubs, school book fairs and trade.

The Company's businesses are categorized in the operating segments identified below. Such segment classification reflects the nature of products and services consistent with how the chief operating decision maker assesses operating performance and allocates resources.

- o CHILDREN'S BOOK PUBLISHING AND DISTRIBUTION includes the publication and distribution of children's books in and from the United States through school book clubs, continuity programs, school book fairs and the trade channel.
- o EDUCATIONAL PUBLISHING includes the publication and distribution of K to 12 textbooks, supplemental materials, classroom magazines, teaching resources and instructional technology in and from the United States to schools and libraries.
- o MEDIA, LICENSING AND ADVERTISING includes the production and distribution of programming and consumer products (including television programming, videos, CD-ROM's, feature films and non-book products) and internet services, as well as advertising and promotional activities.
- o INTERNATIONAL includes the publication and distribution of products and

services outside the United States by the Company's operations in the United Kingdom, Canada, Australia and New Zealand, and its newer businesses in Mexico, India, Ireland and Argentina.

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

	CHILDREN'S BOOK PUBLISHING AND DISTRIBUTION	EDUCATIONAL PUBLISHING	MEDIA, LICENSING AND ADVERTISING	OVERHEAD(1)	TOTAL DOMESTIC	INTERNATIONAL	CONSOLIDATED
2000							
REVENUES	\$ 872.4	\$ 219.8	\$ 104.3	\$ 0.0	\$ 1,196.5	\$ 206.0	\$ 1,402.5
DEPRECIATION	3.6	1.0	2.1	9.3	16.0	3.7	19.7
AMORTIZATION(2)	12.8	29.5	8.0	0.0	50.3	1.4	51.7
ROYALTY ADVANCES EXPENSED	22.6	1.6	3.4	0.0	27.6	1.6	29.2
SEGMENT PROFIT/(LOSS)(3)	169.6	(10.7)	(10.3)	(56.0)	92.6	6.4	99.0
SEGMENT ASSETS	356.8	223.3	61.2	204.7	846.0	137.2	983.2
LONG-LIVED ASSETS(4)	96.3	111.6	35.0	127.0	369.9	51.9	421.8
EXPENDITURES FOR LONG-LIVED ASSETS(5)	37.9	47.3	26.6	28.5	140.3	4.4	144.7
1999							
REVENUES	\$ 667.2	\$ 203.8	\$ 103.5	\$ 0.0	\$ 974.5	\$ 191.0	\$ 1,165.5
DEPRECIATION	3.1	0.8	0.8	8.7	13.4	3.5	16.9
AMORTIZATION(2)	12.7	24.4	15.7	0.0	52.8	3.2	56.0
ROYALTY ADVANCES EXPENSED	16.9	1.8	1.6	0.0	20.3	1.5	21.8
SEGMENT PROFIT/(LOSS)(3)	111.9	2.4	(2.7)	(38.6)	73.0	4.9	77.9
SEGMENT ASSETS	314.6	166.5	52.4	163.2	696.7	145.6	842.3
LONG-LIVED ASSETS(4)	97.3	95.5	24.1	107.6	324.5	57.5	382.0
EXPENDITURES FOR LONG-LIVED ASSETS(5)	37.5	34.5	19.1	16.2	107.3	10.7	118.0
1998							
REVENUES	\$ 562.9	\$ 210.6	\$ 99.9	\$ 0.0	\$ 873.4	\$ 196.4	\$ 1,069.8
DEPRECIATION	2.4	0.9	0.7	7.5	11.5	3.5	15.0
AMORTIZATION(2)	12.6	20.5	13.7	0.0	46.8	2.4	49.2
ROYALTY ADVANCES EXPENSED	16.6	1.0	(1.0)	0.0	16.6	1.1	17.7
SEGMENT PROFIT/(LOSS)(6)	82.6	0.4	(7.4)	(37.1)	38.5	9.7	48.2
SEGMENT ASSETS	255.9	177.2	40.8	155.6	629.5	134.1	763.6
LONG-LIVED ASSETS(4)	84.8	87.6	18.8	97.2	288.4	56.8	345.2
EXPENDITURES FOR LONG-LIVED ASSETS(5)	43.2	12.4	18.2	9.2	83.0	7.4	90.4

- (1) Overhead includes all domestic corporate-related items not allocated to reportable segments. As it relates to the segment profit/(loss), unallocated expenses include costs related to the management of corporate assets and for fiscal 2000, non-recurring charges related to the establishment of a litigation reserve of \$6.7 and to the liquidation of certain stock options or \$1.8. 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 and its National Service Operation located in Missouri.
- (2) Includes amortization of goodwill, intangible assets, and prepublication and production costs.
- (3) Segment profit/(loss) represents earnings before interest and income taxes.
- (4) Includes property, plant and equipment, prepublication costs, goodwill and trademarks, royalty advances and production costs.
- (5) Includes purchases of property, plant and equipment, investments in prepublication and production costs, and royalty advances.
- (6) Segment profit/(loss) represents earnings before interest, income taxes and the fiscal 1998 gain on the sale of the SOHO Group. This amount includes non-recurring charges relating to the impairment of certain assets consisting primarily of unamortized prepublication costs of \$6.9 and related inventory costs of \$4.5; with approximately \$8.3 and \$3.1 of the charges relating to the Company's EDUCATIONAL PUBLISHING and MEDIA, LICENSING AND ADVERTISING segments, respectively.

3. DEBT

Debt consisted of the following at May 31,

	2000		1999	
	CARRYING VALUE	FAIR VALUE	CARRYING VALUE	FAIR VALUE
LINES OF CREDIT	\$ 8.5	\$ 8.5	\$ 18.0	\$ 18.0
LOAN AGREEMENT AND REVOLVER	5.6	5.6	10.0	10.0
7% NOTES DUE 2003, NET OF DISCOUNT	124.8	120.8	124.8	126.1
CONVERTIBLE SUBORDINATED DEBENTURES	110.0	104.4	110.0	106.7

OTHER DEBT	0.9	0.9	3.4	3.4
TOTAL DEBT	249.8	240.2	266.2	264.2
LESS CURRENT PORTION OF LONG TERM DEBT AND LINES OF CREDIT	(8.7)	(8.7)	(18.2)	(18.2)
TOTAL LONG-TERM DEBT	\$ 241.1	\$ 231.5	\$ 248.0	\$ 246.0

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

LOAN AGREEMENT

The Company and Scholastic Inc. (a wholly-owned subsidiary) are joint and several borrowers under a loan agreement with certain banks which was amended and restated effective August 11, 1999 (the "Loan Agreement"). The Loan Agreement, which expires August 11, 2004, provides for aggregate unsecured borrowings of up to \$170.0 (with a right in certain circumstances to increase it to \$200.0) including the issuance of up to \$10.0 in letters of credit (of which none was outstanding at May 31, 2000). Interest under this facility is either at the prime rate or 0.325% to 0.90% over LIBOR (as defined). There is a facility fee ranging from 0.10% to 0.30% and a utilization fee ranging from 0.05% to 0.15% if borrowings exceed 33% of the total facility. The amounts charged vary based upon the Company's credit rating. Based on the Company's credit rating at May 31, 2000, the interest rate, facility fee and utilization fee were 9.5%, 0.150%, and 0.075%, respectively. At May 31, 2000, there were no amounts outstanding under The Loan Agreement. The Loan Agreement contains certain financial covenants related to debt and interest coverage ratios (as defined) and limits dividends and other distributions. (See Note 12, Subsequent Events.)

REVOLVER

The Company and Scholastic Inc. are joint and several borrowers under a Revolving Loan Agreement with a bank, which was amended and restated effective November 10, 1999 (the "Revolver") and provides for unsecured revolving credit loans of up to \$40.0 and expires on August 11, 2004. Interest under this facility is at the prime rate minus 1% or 0.325% to 0.90% over LIBOR (as defined). There is a facility fee ranging from 0.10% to 0.30%. The amounts charged vary based upon the Company's credit rating. Based on the Company's credit rating at May 31, 2000, the interest rate and facility fee were 8.5% and 0.150%, respectively. At May 31, 2000, there was \$5.6 outstanding under the Revolver. The Revolver has certain financial covenants related to debt and interest coverage ratios (as defined) and limits dividends and other distributions.

7% NOTES DUE 2003

On December 23, 1996, the Company issued \$125.0 of 7% Notes (the "Notes"). The Notes are unsecured and unsubordinated obligations of the Company and will mature on December 15, 2003. The Notes are not redeemable prior to maturity. Interest on the Notes is payable semi-annually on December 15 and June 15 of each year.

CONVERTIBLE SUBORDINATED DEBENTURES

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

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

The Debentures are subordinated to the Loan Agreement, the Revolver and the Notes.

LINES OF CREDIT

The Company's international subsidiaries had unsecured lines of credit available of \$37.1 and \$37.9 at May 31, 2000 and 1999, respectively. There were \$8.5 and \$18.0 outstanding under these credit lines at May 31, 2000 and 1999, respectively. These lines of credit are considered short-term in nature. The weighted-average interest rates on the outstanding amounts were 6.40% and 7.15% at May 31, 2000 and 1999, respectively.

4. COMMITMENTS AND CONTINGENCIES

COMMITMENTS

The Company leases warehouse space, office space and equipment under various operating leases. Certain of these leases provide for rent increases based on price-level factors. In most cases, management expects that in the normal course of business, leases will be renewed or replaced by other leases. The Company has no significant capitalized leases. Total rent expense relating to the Company's operating leases was \$35.9, \$32.2 and \$26.2 for the fiscal years ended May 31, 2000, 1999 and 1998, respectively. These rentals include payments under the terms of the escalation provisions and are net of sublease income.

The aggregate minimum future annual rental commitments at May 31, 2000, under all non-cancelable operating leases, totaling \$334.9 are as follows: 2001 - \$35.2; 2002 - \$30.4; 2003 - \$25.3; 2004 - \$20.6; 2005 - \$16.8; later years - \$206.6.

The Company had certain contractual commitments at May 31, 2000 totaling \$18.7. The aggregate annual commitments were as follows: 2001 - \$14.8; 2002 - \$3.0; 2003 - \$0.5; 2004 - \$0.1; 2005 - \$0.3; later years - none.

CONTINGENCIES

The Company and certain officers have been named as defendants in litigation which alleges, among other things, violations of Sections 10(b) and 20(a) of the

Securities Exchange Act of 1934 and Rule 10b-5 thereunder, resulting from purportedly materially false and misleading statements to the investing public concerning the financial condition of the Company.

On January 26, 2000, an order was entered granting the Company's motion to dismiss plaintiffs' Second Amended Consolidated Complaint without leave to further amend the complaint. Previously, on December 14, 1998, an order was entered granting the Company's motion to dismiss plaintiffs' First

Amendment Consolidated Complaint, with leave to amend the complaint. In dismissing both complaints, which alleged substantially similar claims, the court held that plaintiffs failed to state a claim upon which relief can be granted. Plaintiffs have appealed the most recent dismissal. The Company continues to believe that the litigation is without merit and will continue to vigorously defend against it.

On February 1, 1999, two subsidiaries of the Company commenced an action in the Supreme Court of the State of New York in New York County against Parachute Press, Inc. ("Parachute"), the licensor of certain publication and nonpublication rights to the GOOSEBUMPS series, certain affiliated Parachute companies and R.L. Stine, individually, alleging material breach of contract and fraud in connection with the agreements under which such GOOSEBUMPS rights are licensed to the Company. The issues in the case are also, in part, the subject of two litigations commenced by Parachute following repeated notices from the Company to Parachute of material breaches by Parachute of the agreements under which such rights are licensed and the exercise by the Company of its contractual remedies under the agreements. The first Parachute action, in which two subsidiaries of the Company are defendants and counterclaim plaintiffs, was commenced in the federal court for the Southern District of New York on November 14, 1997 and was dismissed for lack of subject matter jurisdiction on January 29, 1999. Parachute filed an appeal of the dismissal. The Court of Appeals for the Second Circuit vacated the dismissal and remanded the case for further proceedings. The second Parachute action was filed contemporaneously with the filing of the Company's complaint on February 1, 1999 in the Supreme Court of the State of New York in New York County. In its two complaints, and in its counterclaims, Parachute alleges that the exercise of contractual remedies by the Company was improper and seeks declaratory relief and unspecified damages for, among other claims, alleged breaches of contract and acts of unfair competition. Damages sought by Parachute include the payment of a total of approximately \$36.1 of advances over the term of the contract (of which approximately \$15.3 had been paid at the time the first Parachute litigation began) and payments of royalties set-off by Scholastic against amounts claimed by the Company. The Company is seeking declaratory relief and damages for, among other claims, breaches of contract, fraud and acts of unfair competition. Damages sought by the Company include lost profits and disgorgement of certain payments received by Parachute. On July 21, 2000, the Company and Parachute each filed motions for partial summary judgement in the state court cases. The Company intends to vigorously pursue its claims against Parachute and the other named defendants and to vigorously defend its position in these proceedings. The Company does not believe that this dispute will have a material adverse effect on its financial condition.

In addition to the above actions, 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. INCOME TAXES

The provision for income taxes for the indicated fiscal years ended May 31 are based on earnings/(losses) before taxes as follows:

	2000	1999	1998
UNITED STATES	\$ 82.4	\$ 63.0	\$ 36.6
NON-UNITED STATES	(2.0)	(4.1)	1.5
	\$ 80.4	\$ 58.9	\$ 38.1

The provision for income taxes for the indicated fiscal years ended May 31 consists of the following components:

	2000	1999	1998
FEDERAL			
CURRENT	\$ 37.6	\$ 21.3	\$ 18.4
DEFERRED	(12.8)	(2.6)	(8.6)
	\$ 24.8	\$ 18.7	\$ 9.8
STATE AND LOCAL			
CURRENT	\$ 4.2	\$ 2.7	\$ 3.0
DEFERRED	(2.4)	0.2	0.1
	\$ 1.8	\$ 2.9	\$ 3.1
INTERNATIONAL			
CURRENT	\$ 2.3	\$ 0.2	\$ 1.5
DEFERRED	0.1	0.3	0.1
	\$ 2.4	\$ 0.5	\$ 1.6
TOTAL			
CURRENT	\$ 44.1	\$ 24.2	\$ 22.9
DEFERRED	(15.1)	(2.1)	(8.4)

\$ 29.0

\$ 22.1

\$ 14.5

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The provision for income taxes attributable to continuing operations differ from the amount of tax determined by applying the federal statutory rate as follows:

	2000	1999	1998
COMPUTED FEDERAL STATUTORY PROVISION	\$ 28.1	\$ 20.6	\$ 13.3
STATE INCOME TAX PROVISION, NET OF FEDERAL INCOME TAX BENEFIT	1.2	1.9	2.0
DIFFERENCE IN EFFECTIVE TAX RATES ON EARNINGS OF FOREIGN SUBSIDIARIES	0.2	(0.1)	(0.9)
CHARITABLE CONTRIBUTIONS	(0.8)	(0.5)	0.0
OTHER - NET	0.3	0.2	0.1
TOTAL PROVISION FOR INCOME TAXES	\$ 29.0	\$ 22.1	\$ 14.5
EFFECTIVE TAX RATES	36.1%	37.5%	38.1%

The undistributed earnings of foreign subsidiaries at May 31, 2000 are \$18.6. Any remittance of foreign earnings would not result in any significant additional tax.

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting and the amounts used for income tax purposes as determined under enacted tax laws and rates. The tax effects of these items that give rise to deferred tax assets and liabilities as of May 31 for the indicated fiscal years are as follows:

	2000	1999
NET DEFERRED TAX ASSETS:		
TAX UNIFORM CAPITALIZATION	\$ 28.0	\$ 23.6
INVENTORY RESERVES	14.2	11.7
OTHER ACCOUNTING RESERVES	12.8	3.6
POST-RETIREMENT, POST-EMPLOYMENT AND PENSION OBLIGATIONS	7.6	7.0
THEATRICAL MOTION PICTURE ACCOUNTING	2.5	2.4
DEPRECIATION	(4.8)	(3.6)
OTHER - NET	(5.3)	(3.0)
TOTAL NET DEFERRED TAX ASSETS	\$ 55.0	\$ 41.7

Net deferred tax assets of \$55.0 at May 31, 2000 and \$41.7 at May 31, 1999 include \$57.2 and \$41.8 in deferred income taxes, \$1.1 and \$1.2 in Other assets, and \$(3.3) and \$(1.3) in Other noncurrent liabilities at May 31, 2000 and 1999, respectively.

6. CAPITAL STOCK AND STOCK OPTIONS

The Company has authorized capital stock of 25,000,000 shares of Common Stock, \$0.01 par value (the "Common Stock"), 2,500,000 shares of Class A Stock, \$0.01 par value (the "Class A Stock"), and 1,000,000 shares of Preferred Stock, \$1.00 par value (the "Preferred Stock"). (See Note 12, Subsequent Events.) At May 31, 2000, 16,176,184 shares of Common Stock, 828,100 shares of Class A Stock and no shares of the Preferred Stock were issued and outstanding and 851,006 shares of Common Stock were designated as Treasury Stock. At May 31, 2000, the Company had reserved 6,307,275 shares of Common Stock. Of these shares, 3,730,998 shares were reserved for issuance under the Company's stock option plans (including shares available for grant and options currently outstanding), 828,100 shares were reserved for issuance upon conversion of the Class A Stock, 317,003 shares were reserved for future issuances under the Company's Management and Employee Stock Purchase Plans and 1,431,174 shares were reserved for issuance upon conversion of the Convertible Debentures.

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 of Directors. The holders of Class A Stock are entitled to elect all other directors and to vote on all other matters. Holders of Class A Stock and Common Stock are entitled to one vote per share on matters on which they are entitled to vote. The holders of Class A Stock have the right, at their option, to convert shares of Class A Stock into shares of Common Stock on a share-for-share basis.

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 of Directors. The Company has not paid any dividends since its public offering in 1992 and has no current plans to pay any dividends on its Common Stock or Class A Stock.

PREFERRED STOCK

The Company's authorized Preferred Stock may be issued in one or more series with full or limited voting rights, with the rights of each series to be determined by the Board of Directors before each issuance. To date no shares of

Preferred Stock have been issued.

WARRANTS

During fiscal 1999, the Company granted a warrant to purchase 45,000 shares of Common Stock at a price of \$39.12 to a third party developer. During fiscal 2000, the Company bought back the warrant to purchase 45,000 shares of Common Stock for an aggregate purchase price of \$1.0 which was reported as prepublication costs.

STOCK OPTIONS

In fiscal 1996, the Company adopted the 1995 Stock Option Plan (the "1995 Plan"), which provides for the grant of non-qualified stock options and incentive stock options. Initially, 2,000,000 shares of Common Stock were reserved for issuance upon the exercise of options granted under this plan. In September 1998, the holders of the Class A Stock authorized the issuance of an additional 1,500,000 shares of Common Stock under the 1995 Option Plan. The 1995 Plan supplemented the 1992 Stock Option Plan (the "1992 Plan"). At May 31, 2000, options to purchase 2,182,758 and 520,725 shares of Common Stock were outstanding under the 1995 and 1992 Plans, respectively; 856,515 and no shares of Common Stock were available for additional awards under the 1995 and 1992 Plans, respectively.

In fiscal 1998, the Company adopted the stockholder approved 1997 Outside Directors' Stock Option Plan (the "1997 Directors' Option Plan"), which provides for the grant of non-qualified options to purchase Common Stock, with 180,000 shares originally reserved for issuance. This plan provides for the automatic grant of options to non-employee directors each January to purchase 3,000 shares of Common Stock. The 1997 Directors' Option Plan supplemented the 1992 Outside Directors' Stock Option Plan (the "1992 Directors' Option Plan"). At May 31, 2000, options to purchase 63,000 and 18,000 shares of Common Stock were outstanding and options on 90,000 and zero shares of Common Stock were available for additional awards under the 1997 and 1992 Directors' Option Plans, respectively. In January 2000 and 1999, options were awarded under the 1997 Directors' Option Plan at exercise prices of \$60.77 and \$56.94, respectively.

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

The following table sets forth activity under the various stock option plans for the three fiscal years ended May 31:

	2000		1999		1998	
	OPTIONS	WEIGHTED-AVERAGE EXERCISE PRICE	OPTIONS	WEIGHTED-AVERAGE EXERCISE PRICE	OPTIONS	WEIGHTED-AVERAGE EXERCISE PRICE
OUTSTANDING - BEGINNING OF YEAR	2,717,997	\$ 39.87	2,617,659	\$ 38.42	900,850	\$ 41.94
GRANTED	655,100	52.08	333,400	43.64	1,870,560	35.43
EXERCISED	(523,114)	31.79	(205,613)	28.15	(69,500)	9.93
CANCELLED	(65,500)	47.34	(27,449)	35.40	(84,251)	44.12
OUTSTANDING - END OF YEAR	2,784,483	\$ 44.09	2,717,997	\$ 39.87	2,617,659	\$ 38.42
EXERCISABLE - END OF YEAR	1,590,407	\$ 42.34	1,663,721	\$ 38.46	539,651	\$ 36.49

Information regarding weighted-average exercise prices and weighted-average remaining contractual lives of the remaining outstanding stock options, under the various stock option plans at May 31, 2000, sorted by range of exercise price is as follows:

OPTIONS OUTSTANDING			OPTIONS EXERCISABLE		
OPTIONS PRICE RANGE	NUMBER	WEIGHTED-AVERAGE EXERCISE PRICE	WEIGHTED-AVERAGE REMAINING CONTRACTUAL LIFE	NUMBER EXERCISABLE	WEIGHTED-AVERAGE EXERCISE PRICE
\$ 13.76 - \$ 34.40	15,000	\$ 19.97	1.3 years	15,000	\$ 19.97
\$ 34.41 - \$ 41.28	1,602,833	\$ 36.38	7.2 years	1,135,833	\$ 36.43
\$ 41.29 - \$ 55.04	667,700	\$ 50.94	8.7 years	62,750	\$ 47.32
\$ 55.05 - \$ 68.81	498,950	\$ 60.40	6.3 years	376,824	\$ 60.22

Under the provisions of SFAS 123, the Company applies APB 25 and related interpretations in accounting for its stock option plans. In accordance with APB 25, no compensation expense was recognized because the exercise price of the Company's stock options 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. During fiscal 2000, the Company recorded an expense of \$1.8 relating to the liquidation of certain stock options.

If the Company had elected to recognize compensation expense based on the fair value of the options granted at the date of grant as prescribed by SFAS 123, net income and diluted earnings per share for the three fiscal years ended May 31 would have been reduced to the proforma amounts indicated in the table below:

	2000	1999	1998
NET INCOME - AS REPORTED	\$ 51.4	\$ 36.8	\$ 23.6
NET INCOME - PROFORMA	\$ 43.7	\$ 27.7	\$ 14.5
DILUTED EARNINGS PER SHARE - AS REPORTED	\$ 2.96	\$ 2.20	\$ 1.45
DILUTED EARNINGS PER SHARE - PROFORMA	\$ 2.54	\$ 1.67	\$ 0.89

The fair value of each option grant is estimated on the date of grant using the Black-Scholes option-pricing model with the following weighted-average assumptions for the three fiscal years ended May 31 as follows:

	2000	1999	1998
EXPECTED DIVIDEND YIELD	0.00%	0.00%	0.00%
EXPECTED STOCK PRICE VOLATILITY	0.417	0.409	0.346
RISK-FREE INTEREST RATE	5.80%	5.24%	6.02%
EXPECTED LIFE OF OPTIONS	5 years	5 years	5 years

The weighted-average fair value of options granted during fiscal 2000, 1999, and 1998 were \$22.84, \$18.89 and \$14.64 per share, respectively. For purposes of proforma disclosure, the estimated fair value of the options is amortized over the options' vesting period. The proforma information above is not likely to be representative of the effects on reported net income for future years as options are generally granted each year and vest over several years and only include grants on or subsequent to June 1, 1997.

EMPLOYEE STOCK PURCHASE PLAN

In fiscal 2000, the Company implemented the Employee Stock Purchase Plan ("ESPP"). The ESPP permits participating United States employees to purchase, through after-tax payroll deductions, the Company's Common Stock at a 15% discount from the lower of the closing price of the Common Stock on the first or last business day of each fiscal quarter. During fiscal 2000, the Company issued 32,997 shares under the ESPP at a weighted average price of \$38.38 per share.

MANAGEMENT STOCK PURCHASE PLAN

In fiscal 2000, the Company implemented the Management Stock Purchase Plan ("MSPP"), which allows certain members of senior management in the United States to defer up to 100% of their annual bonus payment in the form of restricted stock units ("RSUs"). The RSUs are purchased at a 15% discount from the lowest closing price of the Company's Common Stock during the fiscal quarter in which such bonuses are payable and are converted into shares of the Company's Common Stock on a one-for-one basis at the end of the deferral period. During fiscal 2000, no shares were issued under the MSPP.

7. EMPLOYEE BENEFIT PLANS

The Company has a defined benefit pension plan (the "U.S. Pension Plan") which covers the majority of the United States employees who meet certain eligibility requirements. Benefits are based on years of service and on career average compensation. Effective June 1, 1999, the U.S. Pension Plan was converted to a cash balance plan which was funded entirely by contributions from the Company. In prior years the U.S. Pension Plan was funded by contributions from both participants and the Company. It is the Company's policy to fund the minimum amount required by the Employee Retirement Income Security Act of 1974, as amended.

The Company's United Kingdom operation has a defined benefit pension plan (the "U.K. Pension Plan") which covers a majority of the United Kingdom employees who meet certain 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 the subsidiary and its employees.

The Company provides certain Post-Retirement benefits (the "U.S. Post-Retirement Benefits") consisting of certain healthcare and life insurance benefits that the Company provides to retired United States employees. A majority of the Company's United States employees may become eligible for these benefits if they reach normal retirement age while working for the Company.

The following table sets forth the change in benefit obligation and plan assets and reconciliation of funded status under the U.S. and U.K. Pension Plans and the U.S. Post-Retirement Benefits for the three fiscal years ended May 31:

	2000	1999	2000	1999
	PENSION BENEFITS		POST-RETIREMENT BENEFITS	
CHANGE IN BENEFIT OBLIGATION				
BENEFIT OBLIGATION AT BEGINNING OF YEAR	\$32.0	\$26.9	\$11.5	\$11.0
SERVICE COST	4.6	2.5	0.7	0.5
INTEREST COST	2.1	1.9	0.8	0.8
PLAN PARTICIPANTS' CONTRIBUTIONS	0.0	0.6	0.0	0.1
AMENDMENTS	(0.9)	--	--	(0.2)
ACTUARIAL (GAINS)/LOSSES	(1.0)	1.5	2.9	0.1
FOREIGN CURRENCY EXCHANGE RATE CHANGES	(0.5)	(0.1)	--	--
BENEFITS PAID	(1.8)	(1.3)	(1.3)	(0.8)
BENEFIT OBLIGATION AT END OF YEAR	34.5	32.0	14.6	11.5
CHANGE IN PLAN ASSETS				
FAIR VALUE OF PLAN ASSETS AT BEGINNING OF YEAR	26.2	24.1	--	--
ACTUAL RETURN ON PLAN ASSETS	1.4	1.3	--	--
COMPANY CONTRIBUTIONS	1.1	2.2	--	--
FOREIGN CURRENCY EXCHANGE RATE CHANGES	(0.3)	(0.1)	--	--
BENEFITS PAID	(1.8)	(1.3)	--	--
FAIR VALUE OF PLAN ASSETS AT END OF YEAR	26.6	26.2	--	--
UNDERFUNDED STATUS OF THE PLAN(S)	(7.9)	(5.8)	(14.6)	(11.5)
UNRECOGNIZED NET ACTUARIAL LOSS/(GAIN)	1.5	1.6	0.1	(2.8)
UNRECOGNIZED PRIOR SERVICE COST	(0.2)	0.8	(0.2)	(0.2)
UNRECOGNIZED NET ASSET OBLIGATION	0.7	0.8	0.0	0.0
ACCRUED BENEFIT COST	(5.9)	(2.6)	(14.7)	(14.5)
WEIGHTED-AVERAGE ASSUMPTIONS				
DISCOUNT RATE	7.5%	7.0%	8.0%	7.3%
COMPENSATION INCREASE FACTOR	4.6%	4.5%	--	--

Plan assets consist primarily of stocks, bonds, money market funds and United States government obligations. The assumed weighted-average long-term rate of return on plan assets for plans with accumulated benefits obligations that exceed their assets was 9.1% and 9.2% for fiscal 2000 and 1999, respectively.

The following table sets forth the components of the net periodic benefit costs under the U.S. and U.K. Pension Plans and the U.S. Post-Retirement Benefits for the three fiscal years ended May 31:

	2000	1999	1998	2000	1999	1998
	PENSION BENEFITS			POST-RETIREMENT BENEFITS		
COMPONENTS OF NET PERIODIC BENEFIT COST						
SERVICE COST	\$4.6	\$2.5	\$1.7	\$0.7	\$0.5	\$0.4
INTEREST COST	2.1	1.9	1.6	0.8	0.8	0.8
EXPECTED RETURN ON ASSETS	(1.5)	(0.9)	(2.9)	--	--	--
NET AMORTIZATION AND DEFERRALS	0.1	0.3	0.3	(0.1)	(0.1)	--
RECOGNIZED NET ACTUARIAL (GAIN)/LOSS	(1.0)	(1.4)	1.0	--	--	--
NET PERIODIC BENEFIT COST	\$4.3	\$2.4	\$1.7	\$1.4	\$1.2	\$1.2

The accumulated Post-Retirement benefit obligation was determined using a discount rate of 8.0%. Service cost and interest components were determined using a discount rate of 7.0%. The health care cost trend rate assumed was 7.0% with an annual decline of 1% until the rate reaches 5.0% in the year 2002. A decrease of 1% in the health care cost trend rate would result in decreases of approximately \$1.7 in the accumulated benefit obligation and \$0.3 in the annual net periodic post-retirement benefit cost. An increase of 1% in the health care cost trend rate would result in increases of approximately \$2.1 in the accumulated benefit obligation and \$0.3 in the annual net periodic post-retirement benefit cost.

The Company also provides other benefit plans including the 401(k) Plan.

8. EARNINGS PER SHARE

The following table sets forth the computation of basic and diluted earnings per share at May 31:

	2000	1999	1998
NET INCOME FOR BASIC EARNINGS PER SHARE	\$51.4	\$36.8	\$23.6
DILUTIVE EFFECT OF DEBENTURES	3.5	--	--
ADJUSTED NET INCOME FOR DILUTED EARNINGS PER SHARE	\$54.9	\$36.8	\$23.6
WEIGHTED AVERAGE CLASS A AND COMMON SHARES OUTSTANDING FOR BASIC EARNINGS PER SHARE	16.7	16.4	16.2
DILUTIVE EFFECT OF SHARES ISSUABLE PURSUANT TO EMPLOYEE STOCK PLANS	0.4	0.3	0.2
DILUTIVE EFFECT OF DEBENTURES	1.5	--	--
DILUTIVE EFFECTS OF WARRANTS	0.0	0.0	--
ADJUSTED WEIGHTED AVERAGE CLASS A AND COMMON SHARES FOR DILUTED EARNINGS PER SHARE OUTSTANDING	18.6	16.7	16.4
EARNINGS PER CLASS A AND COMMON SHARE			
BASIC	\$3.07	\$2.25	\$1.46
DILUTED	\$2.96	\$2.20	\$1.45

For fiscal years 1999 and 1998, the effect of the 5.0% Convertible Subordinated Debentures of approximately 1.5 million shares on the adjusted weighted-average Class A and Common Shares outstanding for diluted earnings per share is anti-dilutive and is not included in the calculation.

9. NON-RECURRING CHARGES

Fiscal 2000 included \$8.5 of charges primarily related to the establishment of a litigation reserve following an adverse decision in a lawsuit, which was received on December 10, 1999. The case, SCHOLASTIC INC. AND SCHOLASTIC PRODUCTIONS, INC. V. ROBERT HARRIS AND HARRIS ENTERTAINMENT, INC., involves stock appreciation rights allegedly granted to Mr. Harris in 1990 in connection with a joint venture formed primarily to produce motion pictures. Although the Company disagrees with the judge's decision and is appealing the ruling, the Company has recorded a charge of \$6.7 to fully reserve with respect to the case. The \$8.5 of charges also includes an unrelated expense of \$1.8 for the liquidation of certain stock options.

Fiscal 1998 includes non-cash charges relating to the impairment of certain assets of \$11.4. Approximately \$8.3 and \$3.1 of the charges relate to the Company's EDUCATIONAL PUBLISHING and MEDIA, LICENSING AND ADVERTISING segments, respectively. A significant portion of these charges was determined in accordance with SFAS 121 and was based on the Company's assessment of the recoverability of the assets and future net cash flows. These charges consist primarily of unamortized prepublication costs of \$6.9 and related inventory costs of \$4.5.

10. DISPOSITION

Effective January 1, 1998, the Company sold its SOHO Group, including HOME OFFICE COMPUTING(R) magazine, for approximately \$19.2 and the assumption of certain liabilities, resulting in a pre-tax gain of approximately \$10.0.

11. OTHER FINANCIAL DATA

Prepaid and other current assets include deferred magazine acquisition expenses of \$4.8 and \$5.7 at May 31, 2000 and 1999, respectively. The Company expensed \$9.0, \$8.1 and \$7.3 of magazine acquisition expenses in fiscal years 2000, 1999 and 1998, respectively.

Property, plant and equipment includes capitalized interest costs of \$1.4 and \$0.6 for the fiscal years ended May 31, 2000 and 1999, respectively, and construction in progress of \$30.1 and \$13.1 at May 31, 2000 and 1999, respectively, related to the expansion of the Company's headquarters.

Goodwill and trademarks are net of accumulated amortization of \$20.8 and \$16.6 at May 31, 2000 and 1999, respectively.

Other assets are net of accumulated amortization of prepublication costs of \$95.2 and \$68.1 at May 31, 2000 and 1999, respectively.

Other accrued expenses include a reserve for unredeemed credits issued in conjunction with the Company's book club and book fair operations of \$11.6 at May 31, 2000 and 1999.

12. SUBSEQUENT EVENTS

On June 22, 2000, pursuant to a Stock Purchase Agreement dated as of April 13, 2000 and as amended, Scholastic Inc. acquired all of the issued and outstanding capital stock of Grolier Incorporated ("Grolier"), a Delaware corporation, for \$400.0 in cash. No Grolier debt was assumed by the Company in connection with the acquisition. The Company will account for the acquisition under the purchase method of accounting. Grolier's business activities will be included in the Company's CHILDREN'S BOOK PUBLISHING AND DISTRIBUTION, EDUCATIONAL PUBLISHING and INTERNATIONAL segments.

Grolier is the leading operator of United States direct-to-home book clubs, primarily serving children age five and under, and is the leading on-line and print publisher of children's non-fiction and reference products (including the Children's Press and Franklin Watts imprints in the United States and major encyclopedias) sold primarily to United States school libraries. Grolier also has significant international operations in the United Kingdom, Canada and Southeast Asia. Grolier also publishes books in the United States under the Orchard Books imprint for distribution through the trade channel.

The acquisition was financed by the Company using bank debt. Of the \$400.0 Grolier purchase price, \$350.0 was borrowed under a new credit facility (the "Grolier Facility") entered into to finance the acquisition and \$50.0 was borrowed under the Company's existing Loan Agreement. (See Note 3.)

The Grolier Facility is a 364-day facility and may be extended for an additional year. Borrowings bear interest at the prime rate or 0.39% to 1.10% over LIBOR. The Grolier Facility also provides for a facility fee ranging from 0.085% to 0.25%. The amounts charged vary based on the Company's credit rating. Based on the Company's credit rating at June 22, 2000, the interest rate and facility fee charged were 0.575% over LIBOR and 0.125%, respectively.

Effective as of June 22, 2000, the Company's Loan Agreement and Revolver were amended to adjust for the Company's increased debt levels resulting from the acquisition of Grolier. (See Note 3.)

The Board of Directors of the Company has recommended that the Company's Amended and Restated Certificate be amended to increase the number of shares of authorized Common Stock to 70,000,000 shares and Preferred Stock to 2,000,000 shares, subject to the approval of the company's stockholders entitled to vote thereon at the Company's Annual Meeting of Stockholders. If approved, this amendment would increase the number of authorized shares of capital stock of the Company to 74,500,000 shares, consisting of 70,000,000 shares of Common Stock and 2,000,000 shares of Preferred Stock, together with the previously authorized 2,500,000 shares of Class A Stock.

REPORT OF INDEPENDENT AUDITORS

THE BOARD OF DIRECTORS AND STOCKHOLDERS
SCHOLASTIC CORPORATION

We have audited the accompanying consolidated balance sheet of Scholastic Corporation (the "Company") as of May 31, 2000 and 1999, and the related consolidated statement of income, changes in stockholders' equity and comprehensive income, and cash flows for each of the three years in the period ended May 31, 2000. Our audits also included the financial statement schedule listed in the Index at Item 14(a). These financial statements and schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and schedule based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the 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 consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of the Company at May 31, 2000 and 1999 and the consolidated results of its operations, and its cash flows for each of the three years in the period ended May 31, 2000 in conformity with accounting principles generally accepted in the United States. Also, in our opinion, the related financial statement schedule, when considered in relation to the basic financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

/s/ Ernst & Young LLP

New York, New York
July 7, 2000

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SUPPLEMENTARY FINANCIAL INFORMATION

Summary of Quarterly Results of Operations

Years ended May 31, 2000 and 1999 (Unaudited, amounts in millions except per share data)

	FIRST QUARTER	SECOND QUARTER(1)	THIRD QUARTER	FOURTH QUARTER	YEAR(1)

2000					

REVENUES(2)	\$182.5	\$511.3	\$315.0	\$393.7	\$1,402.5
COST OF GOODS SOLD(2)	110.8	240.3	157.8	169.4	678.3
NET INCOME/(LOSS)	(23.6)	41.3	2.0	31.7	51.4
EARNINGS/(LOSS) PER SHARE:					
BASIC	\$(1.43)	\$ 2.49	\$ 0.12	\$ 1.86	\$ 3.07
DILUTED	\$(1.43)	\$ 2.30	\$ 0.11	\$ 1.73	\$ 2.96

1999					

REVENUES(2)	\$153.2	\$406.0	\$269.3	\$337.0	\$1,165.5
COST OF GOODS SOLD(2)	88.2	190.1	135.5	158.1	571.9
NET INCOME/(LOSS)	(17.5)	31.7	0.2	22.4	36.8
EARNINGS/(LOSS) PER SHARE:					
BASIC	\$(1.08)	\$ 1.94	\$ 0.01	\$ 1.36	\$ 2.25
DILUTED	\$(1.08)	\$ 1.81	\$ 0.01	\$ 1.27	\$ 2.20

(1) The second quarter of fiscal 2000 includes non-recurring charges related to the establishment of a litigation reserve of \$6.7 and the liquidation of certain stock options of \$1.8. The impact on earnings per diluted share of these charges is \$0.29 per share.

(2) Certain amounts have been reclassified in accordance with EITF Issue 00-10, "Accounting for Shipping and Handling Fees and Costs."

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

None.

PART III

ITEM 10 DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

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

Executive Officers (as of August 15, 2000)

Name	Age	Employed by registrant since	Position(s) for Past Five Years
Richard Robinson	63	1962	Chairman of the Board (since 1982), President (since 1974) and Chief Executive Officer (since 1975).
Kevin J. McEnery	52	1993	Executive Vice President and Chief Financial Officer (since 1995), Vice President, Strategic Planning and Operations, Magazine and Technology Groups (1993-1995).
Deborah A. Forte	46	1984	Executive Vice President (since 1996), Senior Vice President (1995) and Division Head, Scholastic Entertainment Inc. ("SEI") (since 1995).
Donna M. Iucolano	36	2000	Executive Vice President, Scholastic Internet Group (since 2000); and prior to joining the Company with 1-800-Flowers.com (1994-2000), positions including Senior Vice President (2000) and Vice President (1998-2000).
Barbara A. Marcus	49	1983	Executive Vice President (since 1991), President, Children's Book Publishing and Distribution (since 1999), Executive Vice President, Children's Book Publishing and Distribution (1991-1999).
Margery W. Mayer	48	1990	Executive Vice President (since 1990) - Learning Ventures (since 1998), Instructional Publishing and Scholastic School Group (1990-1997).
Ruth L. Otte	51	1996	Executive Vice President (since 1996) - Internet and Software (1999-2000), Education Group (1998-1999) and New Media Division (1996-1998); and prior to joining the Company, President, Knowledge Adventure (1994-1995).
Hugh Roome	48	1991	Executive Vice President (since 1996), Senior Vice President (1993-1996) - Magazine Group (since 1993).
Richard M. Spaulding	63	1960	Director (since 1974) and Executive Vice President (since 1974).
Judith A. Corman	62	1999	Senior Vice President, Corporate Communications and Media Relations (since 1999); and prior to joining the Company, Senior Vice President, Lerer & Montgomery (1994-1999).
Charles B. Deull	40	1995	Senior Vice President (since 1995), General Counsel (since 1999), Senior Vice President, Legal and Business Affairs (1995-1999), Corporate Secretary (since 1996).
Ernest B. Fleishman	63	1989	Senior Vice President, Education and Corporate Relations (since 1989).

Name	Age	Employed by registrant since	Position(s) for Past Five Years
Jean L. Feiwei	47	1983	Senior Vice President, Publisher, Children's Book Publishing and Distribution (since 1993).
Maurice Greenfield	57	1999	Senior Vice President and Chief Information Officer (since 1999); and prior to joining the Company, Vice President, MIS, National Broadcasting Company (1985-1999).
Frank Grohowski	59	1985	Senior Vice President, Operations (since 1995) and Vice President, Operations (1985-1995).
Larry V. Holland	41	1994	Senior Vice President, Corporate Human Resources and Employee Services (since 1997) and Vice President, Human Resources (1994-1997).
Linda S. Koons	45	1990	Senior Vice President, Education Group (since 1998), Group Head, Education Group (since 1999), Vice President, Supplementary Publishing and Early Childhood Division (1997-1998), Vice President, Early Childhood Division (1995-1997).
David J. Walsh	64	1983	Senior Vice President, International Operations (since 1983).
Helen V. Benham	50	1974	Director (since 1992), Corporate Vice President, Early Childhood Advisor (since 1996), Vice President and Publisher, Early Childhood Division (1990-1996).
Claudia H. Cohl	60	1975	Vice President (since 1978) - Internal Communications (since 1999), Editorial Planning and Development, Scholastic Education Group (1993-1999).
Raymond Marchuk	49	1983	Vice President, Finance & Investor Relations (since 1983).
Karen A. Maloney	43	1997	Vice President and Corporate Controller (since 1998), Director of Accounting and Financial Operations (1997-1998); and prior to joining the Company, Vice President and Corporate Controller, Calvin Klein, Inc. (1996-1997); Vice President and Corporate Controller, Bernard Chaus, Inc. (1995-1996).
Vincent M. Marzano	37	1987	Treasurer (since 1993).
David D. Yun	52	1988	President, Scholastic Book Fairs (since 1992).

ITEM 11 EXECUTIVE COMPENSATION

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

ITEM 12 SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

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

ITEM 13 CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

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

PART IV

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

(a)(1) FINANCIAL STATEMENTS:

The following consolidated financial statements are included in Item 8:

Consolidated Statement of Income for the three years ended May 31, 2000, 1999 and 1998

Consolidated Balance Sheet at May 31, 2000 and 1999

Consolidated Statement of Changes in Stockholders' Equity and Comprehensive Income for the three years ended May 31, 2000, 1999 and 1998

Consolidated Statement of Cash Flows for the three years ended May 31, 2000, 1999 and 1998

Notes to Consolidated Financial Statements

(a)(2) FINANCIAL STATEMENT SCHEDULE:

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

Schedule II- Valuation and Qualifying Accounts and Reserves

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

(a)(3) EXHIBITS:

- 2.1 Stock Purchase Agreement, dated April 13, 2000, among Scholastic Inc., a New York corporation, Hachette Book Group USA, Inc., a Delaware corporation, and Lagardere North America, Inc., a Delaware corporation and parent of Hachette, together with Amendment No. 1 to Stock Purchase Agreement, dated June 22, 2000 (incorporated by reference to the Company's Current Report on Form 8-K as filed with the Commission on July 7, 2000).
- 3.1 Amended and Restated Certificate of Incorporation of the Company (incorporated by reference to the Company's Registration Statement on Form S-8 (Registration No. 33-46338) as filed with the Commission on March 12, 1992).
- 3.2 Bylaws of the Company, Amended and Restated as of March 16, 2000 (incorporated by reference to the Company's Quarterly Report on Form 10-Q as filed with the Commission on April 14, 2000).
- 4.1 Amended and Restated Credit Agreement, dated as of August 11, 1999, among the Company and Scholastic Inc., as borrowers, the Initial lenders named therein, Citibank, N.A., as administrative agent, Salomon Smith Barney Inc., as arranger, and Chase Manhattan Bank, N.A., and Fleet Bank, N.A., as syndication agents (incorporated by reference to the Company's Annual Report on Form 10-K as filed with the Commission on August 23, 2000).

- 4.2 Amendment No. 1, dated as of June 22, 2000, to the Amended and Restated Credit Agreement, dated as of August 11, 1999 among the Company and Scholastic Inc., as borrowers, the Initial lenders named therein, Citibank, N.A., as administrative agent, Salomon Smith Barney Inc., as arranger, and Chase Manhattan Bank, N.A., and Fleet Bank, N.A., as syndication agents.
- 4.3* Amended and Restated Revolving Loan Agreement, dated November 10, 1999 the Company, Scholastic Inc. and Sun Bank, National Association.
- 4.4* Amendment No. 1, dated June 22, 2000, to the Amended and Restated Revolving Loan Agreement, dated as of November 10, 1999, among the Company, Scholastic Inc. and Sun Bank, National Association.
- 4.5 Credit Agreement, dated as of June 22, 2000, among the Company, as guarantor, Scholastic, Inc., as borrower, the initial lenders named therein, Citibank, N.A., as agent for the lenders, and Salomon Smith Barney Inc. and Credit Suisse First Boston, as joint lead arrangers, and the other agents named therein.
- 4.6* Credit Agreement Facility, dated June 1, 1992, as amended on October 30, 1995, between Scholastic Canada Ltd. and CIBC.
- 4.7* Credit Agreement Facility, dated June 24, 1993, between Scholastic Ltd. and Citibank, N.A.
- 4.8* Credit Agreement, dated May 14, 1992, as amended on June 30, 1995, between Scholastic Ltd. (formerly known as Scholastic Publications Ltd.) and Midland Bank.
- 4.9* Credit Agreement, dated February 12, 1993, as amended on January 31, 1995, between Scholastic Australia Pty. Ltd. (formerly known as Ashton Scholastic Pty. Ltd.) and National Australia Bank Ltd.
- 4.10* Credit Agreement, dated April 20, 1993, between Scholastic New Zealand Ltd. (Formerly Ashton Scholastic Ltd.) and ANZ Banking Group Ltd.
- 4.11* Credit Agreement, dated May 28, 1998, between Scholastic Australia Pty. Ltd. and Hong Kong Bank of Australia Ltd.
- 4.12 Indenture dated August 15, 1995 for 5% Convertible Subordinated Debentures due August 15, 2005 issued by the Company (incorporated by reference to the Company's Annual Report on Form 10-K as filed with the Commission on August 28, 1995).
- 4.13 Indenture dated December 15, 1996 for 7% Notes due December 15, 2003 issued by the Company (incorporated by reference to the Company's Registration Statement on Form S-3 (Registration No. 333-17365) as filed with the Commission on December 11, 1996).
- 10.1** Scholastic Corporation 1992 Stock Option Plan (incorporated by reference to the Company's Annual Report on Form 10-K as filed with the Commission on August 27, 1992).
- 10.2** Scholastic Corporation 1995 Stock Option Plan, Amended and restated effective as of July 18, 2000, replacing in its entirety the Scholastic Corporation 1995 Stock Option Plan (incorporated by reference to the Company's Registration Statement Form S-8 (Registration No. 33-98186) as filed with the Commission on October 16, 1995), together with Amendment No. 1 to the Scholastic Corporation 1995 Stock Option Plan (incorporated by reference to the Company's Quarterly Report on Form 10-Q as filed with the Commission on October 15, 1998).
- 10.3** Form of Stock Option Agreement for Scholastic Corporation 1995 Stock Option Plan (incorporated by reference to the Company's Annual Report on Form 10-K as filed with the Commission on August 26, 1998).
- 10.4** Scholastic Corporation Employee Stock Purchase Plan, amended and restated effective as of March 1, 2000 (incorporated by reference to the Company's Quarterly Report on Form 10-Q as filed with the Commission on April 14, 2000).
- 10.5** Scholastic Corporation Management Stock Purchase Plan, amended and restated effective as of December 15, 1999 (incorporated by reference to the Company's Quarterly Report on Form 10-Q as filed with the Commission on January 14, 2000).
- 10.6** Scholastic Corporation 1992 Outside Directors' Stock Option Plan (incorporated by reference to the Company's Annual Report on Form 10-K as filed with the Commission on August 27, 1992).
- 10.7** Scholastic Corporation 1997 Outside Director Stock Option Plan, amended and restated as of May 25, 1999 (incorporated by reference to the Company's Annual Report on Form 10-K as filed with the Commission on August 23, 1999).

- 10.8** Form of Stock Option Agreement for Scholastic Corporation 1997 Outside Director Plan (incorporated by reference to the Company's Annual Report on Form 10-K as filed with the Commission on August 26, 1998).
- 10.9** Scholastic Corporation 1995 Director's Deferred Compensation Plan, amended and restated as of May 25, 1999 (incorporated by reference to the Company's Annual Report on Form 10-K as filed with the Commission on August 23, 1999).
- 10.10** Scholastic Corporation Executive Performance Incentive Plan, effective as of June 1, 1999 (incorporated by reference to the Company's Quarterly Report on Form 10-Q as filed with the Commission on October 15, 1999).
- 10.11** Employment Agreement between Jean L. Feiwei and Scholastic Inc., dated as of May 25, 2000.
- 10.12** Description of contingent long-term incentive arrangement between David D. Yun and Scholastic Inc., effective September 16, 1998 (incorporated by reference to the Company's Annual Report on Form 10-K as filed with the Commission on August 23, 1999).
- 10.13** Description of split dollar life insurance arrangements for the benefit of Richard Robinson and Helen Benham.
- 10.14 Amended and Restated Lease, effective as of August 1, 1999, between ISE 555 Broadway, LLC, landlord, and Scholastic Inc., tenant, for the building known as 555 Broadway, NY, NY (incorporated by reference to the Company's Annual Report on Form 10-K as filed with the Commission on August 23, 1999).
- 10.15 Amended and Restated Sublease, effective as of October 9, 1996, between Kalodop Corp., as sublandlord, and Scholastic Inc., as subtenant, for the premises known as 557 Broadway, NY, NY (incorporated by reference to the Company's Annual Report on Form 10-K as filed with the Commission on August 23, 1999).
- 10.16 Agreements with Industrial Development Agency of the City of New York including (i) Lease Agreement dated December 1, 1993; (ii) Indenture of Trust agreement dated December 1, 1993; (iii) Project Agreement dated December 1, 1993; (iv) Sales Tax letter dated December 3, 1993 (each of the foregoing are incorporated by reference to the Company's Annual Report on Form 10-K as filed with the Commission on August 26, 1994).
- 21 Subsidiaries of the Company.
- 23 Consent of Independent Auditors.
- 27 Financial Data Schedule(s).
- (b) Reports on Form 8-K.
 - 1. A Current Report on Form 8-K was filed on April 13, 2000, noticing that Scholastic Corporation entered into a definitive agreement with Lagardere S.C.A. of France to acquire Grolier Incorporated for \$400 million in cash.
 - 2. A Current Report on Form 8-K was filed on July 7, 2000 in connection with the consummation of the acquisition of Grolier Incorporated.

* Such long-term debt does not individually amount to more than 10% of the total assets of the Company 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 Company hereby agrees to furnish a copy of any such instrument to the Securities and Exchange Commission 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.

SIGNATURES

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

Dated: August 25, 2000 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.

SIGNATURE	TITLE	DATE
/s/ Richard Robinson ----- Richard Robinson	Chairman of the Board, President, Chief Executive Officer and Director (Principal Executive Officer)	August 25, 2000
/s/ Kevin J. McEnergy ----- Kevin J. McEnergy	Executive Vice President and Chief Financial Officer (Principal Financial Officer)	August 25, 2000
/s/ Karen A. Maloney ----- Karen A. Maloney	Vice President and Corporate Controller (Principal Accounting Officer)	August 25, 2000
/s/ Rebeca M. Barrera ----- Rebeca M. Barrera	Director	August 25, 2000
/s/ Helen V. Benham ----- Helen V. Benham	Director	August 25, 2000
/s/ Ramon C. Cortines ----- Ramon C. Cortines	Director	August 25, 2000
/s/ Charles T. Harris, III ----- Charles T. Harris, III	Director	August 25, 2000
/s/ Andrew S. Hedden ----- Andrew S. Hedden	Director	August 25, 2000

SIGNATURE	TITLE	DATE
/s/ Linda B. Keene ----- Linda B. Keene	Director	August 25, 2000
/s/ Mae C. Jemison ----- Mae C. Jemison	Director	August 25, 2000
/s/ John G. McDonald ----- John G. McDonald	Director	August 25, 2000
/s/ Peter M. Mayer ----- Peter M. Mayer	Director	August 25, 2000
/s/ Augustus K. Oliver ----- Augustus K. Oliver	Director	August 25, 2000
/s/ Richard M. Spaulding ----- Richard M. Spaulding	Director	August 25, 2000

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SCHOLASTIC
CORPORATION
Financial Statement Schedule

ANNUAL REPORT ON FORM 10-K
YEAR ENDED MAY 31, 2000
ITEM 14(D)

SCHOLASTIC 45

 SCHEDULE II

VALUATION AND QUALIFYING ACCOUNTS AND RESERVES

Years Ended May 31, 2000, 1999 and 1998 (Amounts in millions)

	BALANCE AT BEGINNING OF OF YEAR	CHARGED TO INCOME	WRITE-OFFS AND OTHER	BALANCE AT END OF YEAR

MAY 31, 2000				
RESERVE FOR ROYALTY ADVANCES	\$31.9	\$ 8.1	\$ 1.2	\$38.8
RESERVE FOR OBSOLESCENCE	37.1	23.9	19.2	41.8
RESERVE FOR RETURNS	25.8	82.9	64.7(1)	44.0
ALLOWANCE FOR DOUBTFUL ACCOUNTS	12.3	20.5	18.1	14.7

MAY 31, 1999				
RESERVE FOR ROYALTY ADVANCES	\$29.7	\$ 2.3	\$ 0.1	\$31.9
RESERVE FOR OBSOLESCENCE	30.7	19.8	13.4	37.1
RESERVE FOR RETURNS	21.3	48.3	43.8(1)	25.8
ALLOWANCE FOR DOUBTFUL ACCOUNTS	10.1	17.0	14.8	12.3

MAY 31, 1998				
RESERVE FOR ROYALTY ADVANCES	\$25.1	\$ 4.6	\$ --	\$29.7
RESERVE FOR OBSOLESCENCE	34.0	15.7	19.0	30.7
RESERVE FOR RETURNS	30.9	42.8	52.4(1)	21.3
ALLOWANCE FOR DOUBTFUL ACCOUNTS	7.8	14.6	12.3	10.1

(1) Represents actual returns charged to the reserve.

EXHIBIT INDEX

REGULATION S-K
EXHIBIT NUMBER

DESCRIPTION OF DOCUMENT

- | | |
|-------|---|
| 4.1 | Amendment No. 1, dated as of June 22, 2000, to the Amended and Restated Credit Agreement, dated as of August 11, 1999 among the Company and Scholastic Inc., as borrowers, the Initial lenders named therein, Citibank, N.A., as administrative agent, Salomon Solomon Smith Barney Inc., as arranger, and Chase Manhattan Bank, N.A., and Fleet Bank, N.A., as syndication agents. |
| 4.5 | Credit Agreement, dated as of June 22, 2000, among the Company, as guarantor, Scholastic Inc., as borrower, Citibank, N.A., as agent for the lenders, and Salomon Smith Barney Inc. and Credit Suisse First Boston, as joint lead arrangers and the other agents named therein. |
| 10.12 | Employment Agreement between Jean L. Feiwei and Scholastic Inc., dated as of May 25, 2000. |
| 10.13 | Description of split dollar life insurance arrangement for the benefit of Richard Robinson and Helen Benham. |
| 21 | Subsidiaries of the Company. |
| 23 | Consent of Independent Auditors. |
| 27 | Financial Data Schedule(s). |

AMENDMENT NO. 1 TO CREDIT AGREEMENT

DATED AS OF JUNE 22, 2000

SCHOLASTIC CORPORATION, a Delaware corporation, and SCHOLASTIC INC., a New York corporation (the "BORROWERS"), and CITIBANK, N.A., as administrative agent (the "AGENT") for the Lenders (as defined in the Credit Agreement referred to below), hereby agree as follows:

PRELIMINARY STATEMENTS

(1) The Borrowers are party to an Amended and Restated Credit Agreement dated as of August 11, 1999 (the "CREDIT AGREEMENT") with the banks, financial institutions and other institutional lenders party thereto and Citibank, N.A., as Administrative Agent. Capitalized terms not otherwise defined in this Amendment shall have the same meanings as specified in the Credit Agreement.

(2) The Borrowers have requested that the Required Lenders agree to amend the financial covenants in the Credit Agreement. The Lenders have indicated their willingness to so agree on the terms and conditions of this Amendment.

SECTION 1. AMENDMENTS TO THE CREDIT AGREEMENT. The Credit Agreement is, effective as of the date of this Amendment and subject to the satisfaction of the conditions precedent set forth in Section 2, hereby amended as follows:

(a) Section 5.02(b) is amended by deleting the reference to "subsection (b) of this Section" and substituting therefor the reference "subsection (c) of this Section".

(b) Section 5.02(e)(ii) is amended (i) by inserting immediately after clause (C) a new clause (D) to read ", (D) 25% of the stated value of any preferred stock converted to common equity" and (ii) by relettering the clause (D) as clause (E).

(c) Section 5.03 is amended in full to read as follows:

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 the ratio set forth below for each period set forth below:

FISCAL QUARTER ENDING	RATIO
August 31, 2000	0.690 to 1.00
November 30, 2000	0.660 to 1.00
February 28, 2001	0.660 to 1.00
May 31, 2001	0.625 to 1.00
August 31, 2001	0.650 to 1.00
November 30, 2001	0.625 to 1.00
February 28, 2002	0.625 to 1.00
May 31, 2002 and thereafter	0.600 to 1.00

(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 the ratio set forth below for each period set forth below:

FISCAL QUARTER ENDING	RATIO
August 31, 2000	3.50 to 1.00
November 30, 2000	3.50 to 1.00
February 28, 2001	3.50 to 1.00
May 31, 2001	3.30 to 1.00
August 31, 2001	3.30 to 1.00
November 30, 2001	3.50 to 1.00
February 28, 2002	3.50 to 1.00
May 31, 2002 and thereafter	3.50 to 1.00

(d) Schedule 5.02(a) is amended in full to read as set forth as Schedule A to this Amendment.

SECTION 2. CONDITIONS OF EFFECTIVENESS OF THIS AMENDMENT. This Amendment shall become effective as of the date first above written when and only if the Administrative Agent shall have received counterparts of this Amendment executed by the Borrowers and the Required Lenders or, as to any of the Lenders, advice satisfactory to the Administrative Agent that such Initial Lender has executed this Amendment.

SECTION 3. 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 Amendment or the Credit Agreement and the other Loan Documents, as amended hereby, are within the Borrower's corporate powers, have been duly authorized by all necessary corporate action, and do

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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 Amendment has been duly executed and delivered by each Borrower. This Amendment and the Credit Agreement and the other Loan Documents, as amended hereby, are 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 Amendment or the Credit Agreement or the other Loan Documents, as amended hereby.

(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) either would be reasonably likely to have a Material Adverse Effect or (ii) purports to adversely affect the legality, validity or enforceability of this Amendment or the Credit Agreement and the other Loan Documents, as amended hereby.

SECTION 4. REFERENCE TO AND EFFECT ON THE CREDIT AGREEMENT AND THE LOAN DOCUMENTS. (a) On and after the effectiveness of this Amendment, each reference in the Credit Agreement to "this Agreement", "hereunder", "hereof" or words of like import referring to the Credit Agreement, and each reference in the other Loan Documents to "the Credit Agreement", "thereunder", "thereof" or words of like import referring to the Credit Agreement, shall mean and be a reference to the Credit Agreement, as amended by this Amendment.

(b) The Credit Agreement and the other Loan Documents, as specifically amended by this Amendment, are and shall continue to be in full force and effect and are hereby in all respects ratified and confirmed.

SECTION 5. COSTS AND EXPENSES. The Borrowers agree to pay on demand all reasonable out-of-pocket costs and expenses of the Administrative Agent in connection with the preparation, execution, delivery and administration, modification and amendment of this Amendment and the other documents to be delivered hereunder (including, without limitation, the reasonable and documented fees and expenses of counsel for the Administrative Agent with respect hereto and thereto) in accordance with the terms of Section 8.04 of the Credit Agreement.

SECTION 6. EXECUTION IN COUNTERPARTS. This Amendment may be executed in any number of counterparts and by different parties hereto in separate counterparts, each of which when so executed shall be deemed to be an original and all of which taken together shall constitute one and the same agreement. Delivery of an executed counterpart of a signature page to this Amendment by telecopier shall be effective as delivery of a manually executed counterpart of this Amendment.

SECTION 7. GOVERNING LAW. This Amendment shall be governed by, and construed in accordance with, the laws of the State of New York.

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IN WITNESS WHEREOF, the parties hereto have caused this Amendment to be executed by their respective officers thereunto duly authorized, as of the date first above written.

SCHOLASTIC CORPORATION.

By /s/

Name:
Title:

SCHOLASTIC INC..

By /s/

Name:
Title:

CITIBANK, N.A.

By /s/

Name:
Title:

THE CHASE MANHATTAN BANK

By /s/

Name:
Title:

FLEET BANK, N.A.

By /s/

Name:
Title:

SUMMIT BANK

By /s/

Name:
Title:

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UMB BANK, N.A.

By /s/

Name:
Title:

HSBC BANK USA

By /s/

Name:
Title:

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SCHEDULE 5.02(a)

EXISTING LIENS AND ENCUMBRANCES

- 1) An Operating Overdraft Agreement was entered into on September 12, 1994 between Scholastic Canada Ltd. ("SCL") and Canadian Imperial Bank of Commerce has a negative pledge that SCL cannot give security over any of its assets to any other lender.
- 2) In 1983, the City of Jefferson, Missouri provided financing to Scholastic Inc. through the issuance of Industrial Revenue bonds to complete a substantial addition to its national distribution center in Jefferson City, Missouri. These Bonds were renegotiated in March 1992. Scholastic has issued to the Bond Trustee an unconditional guarantee of principal and interest. Land acquired in Jefferson City, Missouri, during f/y 1982, a building at Scholastic's national distribution center and certain equipment are pledged as security.
- 3) In December 1993, Scholastic entered into an agreement pursuant to which the IDA provides Scholastic with financial assistance through the issuance of IDA Bonds in connection with the purchase of furniture, fixtures and equipment for use at Scholastic's headquarters at 555 Broadway, New York, New York. In connection with such financial assistance, Scholastic has granted the IDA a security interest in such furniture, fixtures and equipment.
- 4) Liens given to the Screen Actors Guild ("SAG") in connection with the production of The Magic School Bus property.

U.S. \$350,000,000

CREDIT AGREEMENT

Dated as of June 22, 2000

Among

SCHOLASTIC INC.

AS BORROWER

and

SCHOLASTIC CORPORATION

AS GUARANTOR

and

THE INITIAL LENDERS NAMED HEREIN

AS INITIAL LENDERS

and

SALOMON SMITH BARNEY INC. and CREDIT SUISSE FIRST BOSTON
AS JOINT LEAD ARRANGERS

and

CREDIT SUISSE FIRST BOSTON
AS SYNDICATION AGENT

and

THE CHASE MANHATTAN BANK, DEUTSCHE BANK, AG NEW YORK BRANCH
and SUNTRUST BANK

AS CO-AGENTS

and

CITIBANK, N.A.

AS ADMINISTRATIVE AGENT

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Schedule 4.01(i) - Subsidiaries

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EXHIBITS

Exhibit A-1 - Form of Committed Note

Exhibit A-2 - Form of Competitive Bid Note

Exhibit B-1 - Form of Notice of Committed Borrowing

- Exhibit B-2 - Form of Notice of Competitive Bid Borrowing
- Exhibit C - Form of Assignment and Acceptance
- Exhibit D - Form of Opinion of Counsel for the Borrower and the Guarantor
- Exhibit E - Form of Financial Covenants Compliance Certificate

CREDIT AGREEMENT

Dated as of June 22, 2000

This CREDIT AGREEMENT is by and among SCHOLASTIC INC., a New York corporation (the "OPERATING COMPANY" or the "BORROWER"), SCHOLASTIC CORPORATION, a Delaware corporation (the "HOLDING COMPANY" or the "Guarantor"), the banks, financial institutions and other institutional lenders (the "INITIAL LENDERS") listed on the signature pages hereof, SALOMON SMITH BARNEY INC. and CREDIT SUISSE FIRST BOSTON ("CSFB"), as joint lead arrangers, CSFB, as syndication agent, and CITIBANK, N.A. ("CITIBANK"), as administrative agent (the "AGENT") for the Lenders (as hereinafter defined)

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 Committed Advance or a Competitive Bid 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 the account of the Agent maintained by the Agent at Citibank at its office at 399 Park Avenue, New York, New York 10043, Account No. 36852248, Attention: Bank Loan Syndications.

"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 MARGIN" means (a) for Base Rate Advances, 0% per annum and (b) for Eurodollar Rate Advances, a percentage per annum determined by reference to the Public Debt Rating in effect on such date as set forth below:

Public Debt Rating S&P/Moody's	Applicable Margin for Eurodollar Rate Advances
LEVEL 1 A-/A3 or above	0.390%
LEVEL 2 ----- Lower than Level 1 but at least BBB+/Baa1	0.475%
LEVEL 3 ----- Lower than Level 2 but at least BBB/Baa2	0.575%
LEVEL 4 ----- Lower than Level 3 but at least BBB-/Baa3	0.825%
LEVEL 5 ----- Lower than Level 4	1.100%

"APPLICABLE PERCENTAGE" means, as of any date a percentage per annum determined by reference to the Public Debt Rating in effect on such date as set forth below:

Public Debt Rating S&P/Moody's	Applicable Percentage
LEVEL 1 A-/A3 or above	0.085%

LEVEL 2	0.100%

Lower than Level 1 but at least BBB+/Baa1	

LEVEL 3	0.125%

Lower than Level 2 but at least BBB/Baa2	

LEVEL 4	0.175%

Lower than Level 3 but at least BBB-/Baa3	

LEVEL 5	0.250%

Lower than Level 4	

"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.

"BASE RATE" means a fluctuating interest rate per annum in effect from time to time, which rate per annum shall at all times be equal to the highest of:

(a) the rate of interest announced publicly by Citibank in New York, New York, from time to time, as Citibank's base rate;

(b) the sum (adjusted to the nearest 1/4 of 1% or, if there is no nearest 1/4 of 1%, to the next higher 1/4 of 1%) of (i) 1/2 of 1% per annum, PLUS (ii) the rate obtained by dividing (A) the latest three-week moving average of secondary market morning offering rates in the United States for three-month certificates of deposit of major United States money market banks, such three-week moving average (adjusted to the basis of a year of 360 days) being determined weekly on each Monday (or, if such day is not a Business Day, on the next succeeding Business Day) for the three-week period ending on the previous Friday by Citibank on the basis of such rates reported by certificate of deposit dealers to and published by the Federal Reserve Bank of New York or, if such publication shall be suspended or terminated, on the basis of quotations for such rates received by Citibank from three New York certificate of deposit dealers of recognized standing selected by Citibank, by (B) a percentage equal to 100% minus the average of the daily percentages specified during such three-week period by the Board of Governors of the Federal Reserve System (or any successor) for determining the maximum reserve requirement (including, but not limited to, any emergency, supplemental or other marginal reserve requirement) for Citibank with respect to liabilities consisting of or including (among other liabilities) three-month U.S. dollar non-personal time deposits in the United States, PLUS (iii) the average during such three-week period of the annual assessment rates estimated by Citibank for determining the then current annual assessment payable by Citibank to the Federal Deposit Insurance Corporation (or any successor) for insuring U.S. dollar deposits of Citibank in the United States; and

(c) 1/2 of one percent per annum above the Federal Funds Rate.

"BASE RATE ADVANCE" means a Committed Advance that bears interest as provided in Section 2.07(a)(i).

"BORROWING" means a Committed Borrowing or a Competitive Bid Borrowing.

"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.

"COMMITTED ADVANCE" means an advance by a Lender to the Borrower as part of a Committed Borrowing and refers to a Base Rate Advance or a Eurodollar Rate Advance (each of which shall be a "TYPE" of Committed Advance).

"COMMITTED BORROWING" means a borrowing consisting of simultaneous Committed Advances of the same Type made by each of the Lenders pursuant to Section 2.01.

"COMMITTED FACILITY" means, at any time, the aggregate amount of the Lenders' Commitments at such time.

"COMMITTED NOTE" means a promissory note of the Borrower payable to the order of any Lender, delivered pursuant to a request made under Section 2.19 in substantially the form of Exhibit A-1 hereto, evidencing the aggregate indebtedness of the Borrower to such Lender resulting from the Committed Advances made by such Lender.

"COMMITMENT" means, with respect to any Lender at any time (a) the amount set forth opposite such Lender's name on Schedule I hereto under the caption "Commitment" or (b) 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 9.07(f), as such amount may be reduced pursuant to Section 2.05.

"COMPETITIVE BID ADVANCE" means an advance by a Lender to the 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 the Borrower payable to the order of any Lender, in substantially the form of Exhibit A-2 hereto, evidencing the indebtedness of the Borrower to such Lender resulting from a Competitive Bid Advance made by such Lender.

"CONFIDENTIAL INFORMATION" means information that the Borrower or the Guarantor furnishes 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 the Borrower or the Guarantor 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, at any time, the ratio of (a) Total Consolidated Debt to (b) the sum of: (i) consolidated short-term debt for borrowed money of the Guarantor, (ii) consolidated long-term debt of the Guarantor, (iii) the aggregate value of stockholders' equity (as set forth in the most current consolidated balance sheet of the Guarantor), and (iv) the aggregate value of all preferred stock (as set forth in the most current consolidated balance sheet of the Guarantor).

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"CONSOLIDATED INTEREST COVERAGE RATIO" shall mean, for any period of the most recent four consecutive fiscal quarters of the Guarantor and its 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-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-cash gains, to (b) gross interest expense, all as recorded for such period.

"CONVERT", "CONVERSION" and "CONVERTED" each refers to a conversion of Committed Advances of one Type into Committed Advances of the other Type pursuant to Section 2.08 or 2.09.

"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.

"DOMESTIC LENDING OFFICE" means, with respect to any Lender, the office of such Lender specified as its "Domestic Lending Office" opposite its name on Schedule I hereto or in the Assignment and Acceptance pursuant to which it became a Lender, or such other office of such Lender as such Lender may from time to time specify to the Borrower 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; (iii) a commercial bank organized under the laws of the United States, or any State thereof, and having total assets in excess of \$1,000,000,000; (iv) a savings and loan association or savings bank organized under the laws of the United States, or any State thereof, and having total assets in excess of \$1,000,000,000; (v) a commercial bank organized under the laws of any other country that is a member of the Organization for Economic Cooperation and Development or has concluded special lending arrangements with the International Monetary Fund associated with its General Arrangements to Borrow or of the Cayman Islands, or a political subdivision of any such country, and having total assets in excess of \$1,000,000,000, so long as such bank is acting through a branch or agency located in the United States, in the country in which it is organized or another country that is described in this clause (v); (vi) the central bank of any country that is a member of the Organization for Economic Cooperation and Development; and (vii) a finance company, insurance company or other financial institution or fund (whether a corporation, partnership, trust or other entity) that is engaged in making, purchasing or otherwise investing in commercial loans in the ordinary course of its business and having total assets in excess of \$500,000,000; PROVIDED, HOWEVER, that neither the Borrower nor an Affiliate of the 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 Borrower's controlled group, or under common control with the Borrower, 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 the Borrower or any ERISA Affiliate in the circumstances described in Section 4062(e) of ERISA; (e) the withdrawal by either the 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 as its "Eurodollar Lending Office" opposite its name on Schedule I hereto or in or the Assignment and Acceptance pursuant to which it became a Lender (or, if no such office is specified, its Domestic Lending Office), or such other office of such Lender as such Lender may from time to time specify to the Borrower and the Agent.

"EURODOLLAR RATE" means, for any Interest Period for each Eurodollar Rate Advance comprising part of the same Committed 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 Telerate Markets 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 Citibank 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 substantially equal to Citibank's Eurodollar Rate Advance comprising part of such Committed Borrowing to be outstanding during such Interest Period 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 Dow Jones Markets 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 Committed Borrowing shall be determined by the Agent on the basis of the applicable rate furnished to and received by the Agent from Citibank 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 Committed 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 two 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.

"FEDERAL FUNDS RATE" means, for any period, a fluctuating interest rate per annum equal for each day during such period to the weighted average 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 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.

"INFORMATION MEMORANDUM" means the information memorandum dated May 4, 2000 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 Committed 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 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 the Borrower

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pursuant to the provisions below. The duration of each such Interest Period shall be one, two, three or six months, as the Borrower may, upon notice received by the Agent not later than 11:00 A.M. (New York City time) on the second Business Day prior to the first day of such Interest Period, select; PROVIDED, HOWEVER, that:

(i) the Borrower may not select any Interest Period that ends after the Termination Date or, if the Committed Advances have been converted to a term loan pursuant to Section 2.06 prior to such selection, that ends after the Maturity Date;

(ii) Interest Periods commencing on the same date for Eurodollar Rate Advances comprising part of the same Committed 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.

"LENDERS" means the Initial Lenders and each Person that shall become a party hereto pursuant to Section 9.07.

"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 Telerate Markets 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 Citibank 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 substantially equal to the amount that would be Citibank's ratable share of such Borrowing if such Borrowing were to be a Committed Borrowing to be outstanding during such Interest Period 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 Telerate Markets 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 Citibank 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.

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"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 and the Notes, 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 Guarantor and its 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 Guarantor and its Subsidiaries taken as a whole or (b) the ability of the Borrower or the Guarantor to perform their obligations under the Loan Documents.

"MATURITY DATE" means the earlier of (a) the first anniversary of the Termination Date and (b) the date of termination in whole of the aggregate Commitments pursuant to Section 2.05 or 6.01.

"MOODY'S" means Moody's Investors Service, Inc.

"MULTIEMPLOYER PLAN" means a multiemployer plan, as defined in Section 4001(a)(3) of ERISA, to which the 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 the Borrower or any ERISA Affiliate and at least one Person other than the Borrower and the ERISA Affiliates or (b) was so maintained and in respect of which the 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 Committed Note or a Competitive Bid Note.

"NOTICE OF COMPETITIVE BID BORROWING" has the meaning specified in Section 2.03(a).

"NOTICE OF COMMITTED BORROWING" has the meaning specified in Section 2.02(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.

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"PUBLIC DEBT RATING" means, as of any date, the lowest rating that has been most recently announced by either S&P or Moody's, as the case may be, for any class of non-credit enhanced long-term senior unsecured debt issued by the Holding Company. For purposes of the foregoing, (a) if only one of S&P and Moody's shall have in effect a Public Debt Rating, the Applicable Margin and the Applicable Percentage shall be determined by reference to the available rating; (b) if neither S&P nor Moody's shall have in effect a Public Debt Rating, the Applicable Margin and the Applicable Percentage will be set in accordance with Level 5 under the definition of "APPLICABLE MARGIN" or "APPLICABLE PERCENTAGE", as the case may be; (c) if the ratings established by S&P and Moody's shall fall within different levels, the Applicable Margin and the Applicable Percentage shall be based upon the higher rating, unless the lower of such ratings is more than one level below the higher of such ratings, in which case the applicable level shall be one level higher than the lower of such ratings; (d) if any rating established by S&P or Moody's shall be changed, such change shall be effective as of the date on which such change is first announced publicly by the rating agency making such change; and (e) if S&P or Moody's shall change the basis on which ratings are established, each reference to the Public Debt Rating announced by S&P or Moody's, as the case may be, shall refer to the then equivalent rating by S&P or Moody's, as the case may be.

"REBORROW", "REBORROWED" and "REBORROWING" each refers to a borrowing pursuant to which Committed Advances are reborrowed as Competitive Bid Advances or Competitive Bid Advances are reborrowed as Committed Advances, in each case for a principal amount not more than the principal amount of the Advances outstanding at the time of such reborrowing.

"REGISTER" has the meaning specified in Section 9.07(f).

"REQUIRED LENDERS" means at any time Lenders owed or holding at least a majority in interest of the aggregate Commitments at such time or, if the Commitments have been terminated, holding at least a majority of the aggregate outstanding principal amount of the Advances.

"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 in the case of a Person with more than one legal representative, at least half of whose legal representatives) consist of one or more of the foregoing individuals, spouses and descendants; and the trusts respectively created under the will of Maurice R. Robinson and the will of Florence L. Robinson so long as at least half of their respective trustees continue to consist of one or more of the foregoing individuals, spouses and descendants.

"S&P" means Standard & Poor's, a division of The McGraw-Hill Companies, Inc.

"SIGNIFICANT SUBSIDIARY" shall mean any Subsidiary that owns 10% or more of the total consolidated assets of the Holding Company and its subsidiaries or contributes 10% or more of their total consolidated revenue from operations; and in any event shall include Scholastic Canada Ltd. and Scholastic Australia Pty. Ltd. 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 the Borrower or any ERISA Affiliate and no Person other than the Borrower and the ERISA Affiliates or (b) was so maintained and in respect of which the 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.

"STOCK PURCHASE AGREEMENT" means the Stock Purchase Agreement dated as of April 13, 2000 between Grolier Incorporated and the Borrower.

"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

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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.

"TERM LOAN CONVERSION DATE" means the Termination Date on which all Committed Advances outstanding on such date are converted into a term loan pursuant to Section 2.06.

"TERM LOAN ELECTION" has the meaning specified in Section 2.06.

"TERMINATION DATE" means the earlier of June 21, 2001 and the date of termination in whole of the Commitments pursuant to Section 2.05 or 6.01.

"TOTAL CONSOLIDATED DEBT" shall mean the consolidated Debt of the Guarantor and its Subsidiaries.

"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 consistent with those applied in the preparation of the financial statements referred to in Section 4.01(f) ("GAAP").

ARTICLE II AMOUNTS AND TERMS OF THE ADVANCES

SECTION 2.01. THE COMMITTED ADVANCES. Each Lender severally agrees, on the terms and conditions hereinafter set forth, to make Committed Advances to the Borrower from time to time on any Business Day during the period from the Effective Date until the Termination Date in an aggregate amount not to exceed such Lender's Commitment at such time PROVIDED that the aggregate amount of the Commitments of the Lenders shall be deemed used from time to time to the extent of the aggregate amount of the Competitive Bid Advances then outstanding and such deemed use of the aggregate amount of the Commitments shall be allocated among the Lenders ratably according to their respective Commitments (such deemed use of the aggregate amount of the Commitments being a "COMPETITIVE BID REDUCTION"). Each Committed Borrowing 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 Committed Advances of the same Type made on the same day by the Lenders ratably according to their respective Commitments. Within the limits of each Lender's Commitment, the Borrower may borrow under this Section 2.01, prepay pursuant to Section 2.10 and Reborrow under this Section 2.01.

SECTION 2.02. MAKING THE COMMITTED ADVANCES. (a) Each Committed Borrowing shall be made on notice, given not later than (x) 11:00 A.M. (New York City time) on the second Business Day prior to the date of the proposed Committed Borrowing in the case of a Committed Borrowing consisting of Eurodollar Rate Advances or (y) 11:00 A.M. (New York City time) on the date of the proposed Committed Borrowing in the case of a Committed Borrowing consisting of Base Rate Advances, by the Borrower to the Agent, which shall give to each Lender prompt notice thereof by telecopier or telex. Each such notice of a Committed Borrowing (a "NOTICE OF COMMITTED BORROWING") shall be by telephone, confirmed immediately in writing, or telecopier or telex in substantially the form of Exhibit B-1 hereto, specifying therein the requested (i) date of such Committed Borrowing,

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(ii) Type of Advances comprising such Committed Borrowing, (iii) aggregate amount of such Committed Borrowing, and (iv) in the case of a Committed Borrowing consisting of Eurodollar Rate Advances, initial Interest Period for each such Committed Advance. Each Lender shall, before 2:00 P.M. (New York City time) on the date of such Committed 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 Committed 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 Borrower at the Agent's address referred to in Section 9.02.

(b) Anything in subsection (a) above to the contrary notwithstanding, (i) the Borrower may not select Eurodollar Rate Advances for any Committed Borrowing if the aggregate amount of such Committed Borrowing is less than \$5,000,000 or if the obligation of the Lenders to make Eurodollar Rate Advances shall then be suspended pursuant to Section 2.08 or 2.12 and (ii) the Eurodollar Rate Advances may not be outstanding as part of more than twelve separate Committed Borrowings.

(c) Each Notice of Committed Borrowing shall be irrevocable and binding on the Borrower. In the case of any Committed Borrowing that the related Notice of Committed Borrowing specifies is to be comprised of Eurodollar Rate Advances, the 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 Committed Borrowing for such Committed 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 Committed Advance to be made by such Lender as part of such Committed Borrowing when such Committed Advance, 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 Committed Borrowing that such Lender will not make available to the Agent such Lender's ratable portion of such Committed Borrowing, the Agent may assume that such Lender has made such portion available to the Agent on the date of such Committed Borrowing in accordance with subsection (a) of this Section 2.02 and the Agent may, in reliance upon such assumption, make available to the 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 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 the Borrower until the date such amount is repaid to the Agent, at (i) in the case of the Borrower, the interest rate applicable at the time to Committed Advances comprising such Committed Borrowing 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 Committed Advance as part of such Committed Borrowing for purposes of this Agreement.

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

SECTION 2.03. THE COMPETITIVE BID ADVANCES. (a) Each Lender severally agrees that the 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, following the making of each Competitive Bid Borrowing, the aggregate amount of the Advances then outstanding shall not exceed the aggregate amount of the Commitments of the Lenders (computed without regard to any Competitive Bid Reduction).

(i) The Borrower may request a Competitive Bid Borrowing under this Section 2.03 by delivering to the Agent, by telecopier or telex, 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

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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 the 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 the 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 the Borrower. The Agent shall in turn promptly notify each Lender of each request for a Competitive Bid Borrowing received by it from the 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 the 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 the 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 the 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) The 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 the 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. The Borrower shall accept the offers made by any Lender or Lenders to make Competitive Bid Advances in

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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 the 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 the 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 the 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 9.02, 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 the Borrower at the location specified by the 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 the 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 the Borrower. The 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 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, the 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) The Borrower shall repay to the Agent for the account of each Lender that has made a Competitive Bid Advance, on the maturity date of each

Competitive Bid Advance (such maturity date being that specified by the Borrower for repayment of such Competitive Bid Advance in the related Notice of Competitive Bid Borrowing delivered pursuant to subsection (a)(i) above and provided in the Competitive Bid Note evidencing such

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Competitive Bid Advance), the then unpaid principal amount of such Competitive Bid Advance. The Borrower shall not have any right to prepay any principal amount of any Competitive Bid Advance unless, and then only on the terms, specified by the Borrower for such Competitive Bid Advance in the related Notice of Competitive Bid Borrowing delivered pursuant to subsection (a)(i) above and set forth in the Competitive Bid Note evidencing such Competitive Bid Advance.

(e) The Borrower 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 the Borrower for such Competitive Bid Advance in the related Notice of Competitive Bid Borrowing delivered pursuant to subsection (a)(i) above, as provided in the Competitive Bid Note evidencing such Competitive Bid Advance. Upon the occurrence and during the continuance of an Event of Default, the 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 the Competitive Bid Note evidencing such Competitive Bid Advance unless otherwise agreed in such Competitive Bid Note.

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

SECTION 2.04. FEES. (a) FACILITY FEE. The Borrower agrees to pay to the Agent for the account of each Lender a facility fee on the aggregate amount of such Lender's Commitment from the Effective Date in the case of each Initial Lender and from the effective date specified in the Assignment and Acceptance pursuant to which it became a Lender in the case of each other Lender until the later of the Termination Date and, if the Term Loan Election has been exercised, the Maturity Date at a rate per annum equal to the Applicable Percentage in effect from time to time, payable in arrears quarterly on the last day of each February, May, August and November, commencing August 31, 2000, and on the Termination Date or the Maturity Date, as the case may be.

(b) UPFRONT FEES. The Borrower agrees to pay to the Agent for the account of each Lender an upfront fee on the aggregate amount of such Lender's Commitment (x) on the Effective Date, equal to 0.125% of such Lender's Commitment on such date and (y) on the date that is six months after the Effective Date, equal to 0.075% of such Lender's Commitment on such date.

(c) AGENT'S FEES. The Borrower shall pay to the Agent for its own account such fees as may from time to time be agreed between the Borrower and the Agent.

SECTION 2.05. TERMINATION OR REDUCTION OF THE COMMITMENTS. (a) OPTIONAL. The Borrower 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 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.

(b) MANDATORY. (i) On the date of each Committed Borrowing and each Competitive Bid Borrowing, the Commitments of the Lenders shall be automatically and permanently reduced on a pro rata basis by an amount equal to the amount by which the aggregate Commitments exceed the aggregate Advances on such date after giving effect to such Borrowing.

(ii) Upon the issuance by the Guarantor or any of its Subsidiaries of any debt security in the capital markets after the date hereof, the Commitments shall automatically terminate by an amount equal to the new proceeds thereof on the fifth Business Day after the date of receipt by the Guarantor or its Subsidiaries of such proceeds.

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(iii) On the Termination Date, if the Borrower has made the Term Loan Election in accordance with Section 2.06 prior to such date, and from time to time thereafter upon each prepayment of the Committed Advances, the Commitments of the Lenders shall be automatically and permanently reduced on a pro rata basis by an amount equal to the amount by which (A) the aggregate Commitments immediately prior to such reduction EXCEEDS (B) the aggregate unpaid principal amount of all Committed Advances outstanding at such time.

SECTION 2.06. REPAYMENT OF COMMITTED ADVANCES. The Borrower shall, subject to the next succeeding sentence, repay to the Agent for the ratable account of the Lenders on the Termination Date the aggregate principal amount of the Committed Advances then outstanding. The Borrower may, upon not less than 15 days' notice to the Agent, elect (the "TERM LOAN ELECTION") to convert all of the Committed Advances outstanding on the Termination Date in effect at such time into a term loan which the Borrower shall repay in full ratably to the Lenders on the Maturity Date; PROVIDED that the Term Loan Election may not be exercised if a Default has occurred and is continuing on the date of notice of the Term Loan Election or on the date on which the Term Loan Election is to be effected. All Committed Advances converted into a term loan pursuant to this

Section 2.06 shall continue to constitute Committed Advances except that the Borrower may not Reborrow pursuant to Section 2.01 after all or any portion of such Committed Advances have been prepaid pursuant to Section 2.10.

SECTION 2.07. INTEREST ON COMMITTED ADVANCES. (a) SCHEDULED INTEREST. The Borrower shall pay interest on the unpaid principal amount of each Committed 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 Margin 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 Margin 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.

(b) DEFAULT INTEREST. Upon the occurrence and during the continuance of an Event of Default and after notice from the Agent, the Borrower shall pay interest on the unpaid principal amount of each Committed 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.

SECTION 2.08. INTEREST RATE DETERMINATION. (a) The Agent shall give prompt notice to the Borrower 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 Borrower and the Lenders, whereupon (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 Committed Advances into, Eurodollar Rate Advances shall be suspended until the Agent shall notify the Borrower and the Lenders that the circumstances causing such suspension no longer exist. Each Lender that provides a notice as

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described in this Section 2.08(b) agrees to provide to the Borrower a certificate in reasonable detail summarizing the basis for such notice.

(c) If the Borrower 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 Borrower 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 Telerate Markets Page 3750 is unavailable and Citibank 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 Borrower 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 automatically, on the last day of the then existing Interest Period therefor, be prepaid by the Borrower 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), and

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

SECTION 2.09. OPTIONAL CONVERSION OF COMMITTED ADVANCES. The 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 second Business Day prior to the date of

the proposed Conversion and subject to the provisions of Sections 2.08 and 2.12, Convert Committed Advances of one Type comprising the same Borrowing into Committed Advances 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 Committed Advances shall result in more separate Committed Borrowings 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 Committed Advances 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 Borrower.

SECTION 2.10. PREPAYMENTS OF COMMITTED ADVANCES. (a) OPTIONAL. The Borrower may, upon notice at least one Business Day prior to the date of such prepayment to the Agent stating the proposed date and aggregate principal amount of the prepayment, and if such notice is given the Borrower shall, prepay the outstanding principal amount of the Committed Advances comprising part of the same Committed Borrowing 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

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Advances and (y) in the event of any such prepayment of a Eurodollar Rate Advance, the Borrower shall be obligated to reimburse the Lenders in respect thereof pursuant to Section 9.04(c).

(b) MANDATORY. (i) The Borrower shall, on each Business Day, prepay an aggregate principal amount of the Committed Advances comprising part of the same Borrowings equal to the amount by which (1) the sum of the aggregate principal amount of (x) the Committed Advances and (y) the Competitive Bid Advances then outstanding exceeds (2) the Committed Facility on such Business Day. Such prepayments of the Committed Facility shall be applied to prepay Committed Advances then outstanding comprising part of the same Borrowings until such Advances are paid in full.

(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 (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 Borrower 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 Borrower 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 hereunder and other commitments of this type, then, upon demand by such Lender (with a copy of such demand to the Agent), the Borrower 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 hereunder. A certificate in reasonable detail summarizing the basis for and calculating such amounts submitted to the Borrower 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.

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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 Committed Advances into Eurodollar Rate Advances shall be suspended until the Agent shall notify the Borrower 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 Borrower 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. 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, 2.11, 2.14 or 9.04(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 its acceptance of an Assignment and Acceptance and recording of the information contained therein in the Register pursuant to Section 9.07(c), from and after the effective date specified in such Assignment and Acceptance, the Agent shall make all payments hereunder and under the 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) The Borrower hereby authorizes each Lender, if and to the extent payment owed to such Lender is not made when due hereunder or under the Note held by such Lender, to charge from time to time against any or all of the Borrower's accounts with such Lender any amount so due.

(c) All computations of interest based on the Base Rate or in respect of Fixed Rate Advances and facility fees 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 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 the 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 Borrower prior to the date on which any payment is due to the Lenders hereunder that the Borrower will not make such payment in full, the Agent may assume that the 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 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 Borrower hereunder or under the 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 the Notes being hereinafter referred to as "TAXES"). If the Borrower 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 Borrower shall make such deductions and (iii) the Borrower shall pay the full amount deducted to the

relevant taxation authority or other authority in accordance with applicable law.

(b) In addition, the Borrower 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 the Notes or from the execution, delivery or registration of, performing under, or otherwise with respect to, this Agreement or the Notes (hereinafter referred to as "OTHER TAXES").

(c) The Borrower 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 Borrower shall furnish to the Agent, at its address referred to in Section 9.02, the original or a certified copy of a receipt evidencing such payment. In the case of any payment hereunder or under the Notes by or on behalf of the Borrower through an account or branch outside the United States or by or on behalf of the Borrower by a payor that is not a United States person, if the Borrower determine that no Taxes are payable in respect thereof, the Borrower 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.

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(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 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 Borrower (but only so long as such Lender remains lawfully able to do so), shall provide each of the Agent and the Borrower with two original Internal Revenue Service forms W-8BEN or W-8ECI, 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 the 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 Borrower with a valid form W-8BEN or W-8ECI resulting in exemption from United States withholding tax on payments of interest pursuant to this Agreement or the 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 1001 or 4224, that the Lender reasonably considers to be confidential, the Lender shall give notice thereof to the Borrower 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 Borrower 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 Borrower 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 Committed Advances owing to it (other than pursuant to Section 2.11, 2.14 or 9.04(c)) in excess of its ratable share of payments on account of the Committed Advances obtained by all the Lenders, such Lender shall forthwith purchase from the other Lenders such participations in the Committed 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 Borrower agrees 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 Borrower in the amount of such participation.

SECTION 2.16. USE OF PROCEEDS. The proceeds of the Advances shall be available (and the Borrower agrees that it shall use such proceeds) to finance the acquisition of Grolier Incorporated, a Delaware corporation.

ARTICLE III
CONDITIONS TO EFFECTIVENESS AND LENDING

SECTION 3.01. CONDITIONS PRECEDENT TO EFFECTIVENESS OF SECTIONS 2.01 AND 2.03. Sections 2.01 and 2.03 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, 1999.

(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) Nothing shall have come to the attention of the Lenders during the course of their due diligence investigation to lead them to believe that the Information Memorandum was or has become misleading, incorrect or incomplete in any material respect; without limiting the generality of the foregoing, the Lenders shall have been given such access to the management, records, books of account, contracts and properties of the Guarantor and its Subsidiaries as they shall have requested.

(d) 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.

(e) The Borrower shall have notified each Lender and the Agent in writing as to the proposed Effective Date.

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(f) The Borrower 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).

(g) 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.

(h) 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 the Committed Notes) in sufficient copies for each Lender:

(i) The Committed Notes to the order of the Lenders.

(ii) a copy of the certificate of incorporation of each of the Borrower and the Guarantor, and all modifications, amendments and restatements thereof, certified as of a recent date by the Secretary of State of its state of incorporation;

(iii) a copy of the by-laws of each of the Borrower and the Guarantor, together with all modifications, amendments and restatements thereof, certified as of a recent date by its Secretary;

(iv) a certificate of the Secretary of State of the state of incorporation of each of the Borrower and the Guarantor, dated as of a recent date, as to its existence and good standing;

(v) Certified copies of the resolutions of the Board of Directors of each of the Borrower and the Guarantor approving this Agreement and, in the case of the Borrower, the Notes, and of all documents evidencing other necessary corporate action and governmental approvals, if any, with respect to this Agreement and the Notes.

(vi) A certificate of the Secretary or an Assistant Secretary of each of the Borrower and the Guarantor certifying the names and true signatures of the officers of the Borrower or the Guarantor, as the case may be, authorized to sign this Agreement and, in the case of the Borrower, the Notes, and the other documents to be delivered hereunder.

(vii) A favorable opinion of Charles Deull, Senior Vice President, General Counsel of the Guarantor, substantially in the form of Exhibit D hereto and as to such other matters as any Lender

through the Agent may reasonably request.

(viii) A favorable opinion of Shearman & Sterling, counsel for the Agent, in form and substance satisfactory to the Agent.

(i) All of the conditions precedent to the Stock Purchase Agreement shall have been satisfied, including, without limitation, expiration or termination of the applicable waiting period under the Hart-Scott-Rodino Act and receipt of all applicable approvals.

SECTION 3.02. CONDITIONS PRECEDENT TO EACH COMMITTED BORROWING. The obligation of each Lender to make a Committed Advance on the occasion of each Committed Borrowing (including the initial Borrowing) shall be subject to the conditions precedent that the Effective Date shall have occurred and on the date of such Borrowing (a) the following statements shall be true (and each of the giving of the applicable Notice of

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Committed Borrowing and the acceptance by the Borrower of the proceeds of such Borrowing shall constitute a representation and warranty by the Borrower that on the date of such Borrowing such statements are true):

(i) the representations and warranties contained in Section 4.01 are correct on and as of such date before and after giving effect to such Borrowing 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 or from the application of the proceeds therefrom, that constitutes a Default;

and (b) the Agent shall have received such other approvals, opinions or documents as any Lender through the Agent may reasonably request.

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 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 Borrower of the proceeds of such Competitive Bid Borrowing shall constitute a representation and warranty by the Borrower that on the date of such Competitive Bid Borrowing such statements are true):

(a) the representations and warranties contained in Section 4.01 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 Borrower, by notice to the Lenders, designates 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 BORROWER. The Borrower represents and warrants as follows:

(a) Each of the Borrower and the Guarantor 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 of the Borrower and the Guarantor of this Agreement and the other Loan Documents to be delivered by it, and the consummation of the transactions contemplated hereby, are within the Borrower's or the Guarantor's corporate powers, have been duly authorized by all necessary corporate action, and do not contravene (i) the Borrower's or the

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Guarantor's charter or by-laws or (ii) law or any contractual restriction binding on or affecting either of the Borrower or the Guarantor.

(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 the Borrower and the Guarantor. This Agreement is, and each of the other Loan Documents when delivered hereunder will be, the legal, valid and binding obligation of each of the Borrower and the Guarantor party thereto enforceable against the Borrower or the Guarantor, as the case may be, 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 either the Borrower or the Guarantor 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) The Consolidated balance sheet of the Holding Company and its Subsidiaries as at May 31, 1999, 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, 1999, 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 29, 2000, 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 29, 2000, 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. Since May 31, 1999, there has been no Material Adverse Change.

(g) Each of the Borrower, the Guarantor 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 Borrower, the Guarantor and their Subsidiaries, free and clear of all Liens, other than Liens permitted by the Loan Documents.

(h) The operations and properties of each of the Borrower, the Guarantor and each of their 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 the Borrower, the Guarantor or any of their 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 Borrower and the Guarantor 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

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than directors qualifying shares) in each of the Borrower's and the Guarantor's Subsidiaries has been validly issued, are fully paid and non-assessable and are owned by the Borrower, the Guarantor or one or more of their 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) Neither the Borrower nor the Guarantor 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 or to extend credit to others for the purpose of purchasing or carrying any margin stock.

(l) Neither the Borrower nor the Guarantor is an "investment company", or a company "controlled" by an "investment company", within the meaning of the Investment Company Act of 1940, as amended.

SECTION 5.01. AFFIRMATIVE COVENANTS. So long as any Advance shall remain unpaid or any Lender shall have any Commitment hereunder, the Guarantor 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 the Guarantor 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 Borrower and the Guarantor 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 vice-president finance and investor relations or the vice-president 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 vice-president finance and investor relations or the vice-president 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 Sections 5.02(e) and 5.03, PROVIDED that in the event of any change in GAAP used in the preparation of such financial statements, the Holding Company shall also provide, if necessary for the

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determination of compliance with Section 5.03, a statement of reconciliation conforming such financial statements to GAAP;

(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 Borrower and the Guarantor 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 vice-president finance and investor relations or the vice-president 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 Sections 5.02(e) and 5.03, PROVIDED that in the event of any change in GAAP used in the preparation of such financial statements, the Holding Company shall also provide, if necessary for the determination of compliance with Section 5.03, a statement of reconciliation conforming such financial statements to GAAP;

(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 Borrower, the Guarantor or any of their Subsidiaries as any Lender through the Agent may from time to time reasonably request.

(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, the Guarantor and any of its Subsidiaries, and to discuss the affairs, finances and accounts of the Guarantor 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 the Guarantor and its Subsidiaries may consummate any merger or consolidation permitted under Section 5.02(c) and PROVIDED FURTHER that neither the Guarantor nor any of its Significant Subsidiaries shall be required to preserve any right or franchise if (x) the Board of Directors of the Guarantor or such Significant Subsidiary shall determine that the preservation thereof is no longer desirable in the conduct of the business of the Guarantor or such Significant Subsidiary, as the case may be, and that the loss thereof is not disadvantageous in any material respect to the Borrower, the Guarantor or the Lenders or (y) in any jurisdiction 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.

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(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 Guarantor and its 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 the Guarantor 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 the Guarantor or such Subsidiary operates.

(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, the Guarantor will not:

(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 the Guarantor 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 the Guarantor or any Subsidiary of the Guarantor or becomes a Subsidiary of the Guarantor; 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

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merged into or consolidated with the Guarantor or such Subsidiary or

acquired by the Guarantor or such Subsidiary;

(v) other Liens securing Debt in an aggregate principal amount not to exceed \$10,000,000 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 \$35,000,000 and (iv) the sale of either (x) the real property located at 557 Broadway, New York, New York 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 the Guarantor (other than the Borrower) may merge or consolidate with or into any other Subsidiary of the Guarantor, (ii) any Subsidiary of the Guarantor (other than the Borrower) may merge into the Guarantor and (iii) either of the Borrower or the Guarantor may merge with any other Person so long as the Borrower or the Guarantor, as the case may be, 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 Guarantor and its 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 of the Holding Company's outstanding 5% convertible subordinated debentures due August 15, 2005, as in effect on the date hereof, pursuant to the application of the change of control provision contained therein, or any substantially identical provision contained in any subsequent issuance of convertible Debt) (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, 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 and (ii) 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 aggregate amount of cash received and net tax benefit received from the exercise by employees of the Guarantor and its Subsidiaries of stock options or the purchase of shares of stock under the employee stock purchase plan after May 31, 1998, (B) 25% of the reduction in Debt from the conversion to equity of the

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Holding Company's outstanding 5% convertible subordinated debentures due August 15, 2005, (C) 25% of the stated value of any preferred stock converted to common equity and (D) the lesser of (x) 50% of net income of the Holding Company and its Subsidiaries arising after May 31, 1998 and computed on a cumulative Consolidated basis and (y) \$75,000,000.

(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 the Guarantor 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 Guarantor will:

(a) CONSOLIDATED DEBT RATIO. Maintain at all times a Consolidated Debt Ratio of not more than the ratio set forth below for each period set

forth below:

FISCAL QUARTER ENDING	RATIO
August 31, 2000	0.690 to 1.00
November 30, 2000	0.660 to 1.00
February 28, 2001	0.660 to 1.00
May 31, 2001	0.625 to 1.00
August 31, 2001	0.650 to 1.00
November 30, 2001	0.625 to 1.00
February 28, 2002	0.625 to 1.00
May 31, 2002	0.600 to 1.00

(b) CONSOLIDATED INTEREST COVERAGE RATIO. Maintain as at the last day of each of its fiscal quarters a Consolidated Interest Coverage Ratio of not less than the ratio set forth below for each period set forth below:

FISCAL QUARTER ENDING	RATIO
August 31, 2000	3.50 to 1.00
November 30, 2000	3.50 to 1.00
February 28, 2001	3.50 to 1.00

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May 31, 2001	3.30 to 1.00
August 31, 2001	3.30 to 1.00
November 30, 2001	3.50 to 1.00
February 28, 2002	3.50 to 1.00
May 31, 2002	3.50 to 1.00

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 the Committed Advances, 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 Borrower 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(f) 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 the Borrower or the Guarantor; 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 the Borrower or the Guarantor 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 the Borrower or the Guarantor; PROVIDED, HOWEVER, that if such default is capable of being cured and if the Borrower and the Guarantor 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 \$1,000,000 or more shall occur under any instrument or agreement (other than a Loan Document) respecting any

Debt of the Guarantor or any of its Subsidiaries, unless payment shall be made or action shall be taken within three Business Days after such default in an

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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 the Guarantor or of any of its Subsidiaries of \$5,000,000 or more in principal or notional amount shall be accelerated or otherwise become due or be required to be prepaid, repurchased or redeemed (other than pursuant to a regularly scheduled mandatory prepayment, repurchase or redemption or the application of the change of control provision contained in the Holding Company's outstanding 5% convertible subordinated debentures due August 15, 2005, as in effect on the date hereof, or any substantially identical provision contained in any subsequent issuance of debt) prior to its scheduled maturity; or

(g) the Guarantor or any of its 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 the Guarantor or any of its 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 the Guarantor or any of its 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 the Guarantor or any of its 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 \$5,000,000 shall be rendered against the Guarantor or any of its 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) the 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 the 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

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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 Borrower, declare the obligation of each Lender to make Advances 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 Borrower, declare the Notes, all interest thereon and all other amounts payable under this Agreement to be forthwith due and payable, whereupon the Notes, 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 Borrower; PROVIDED, HOWEVER, that in the event of an actual or deemed entry of an order for relief with respect to the Borrower under the United States Bankruptcy Code, (1) the obligation of each Lender to make Advances shall automatically be terminated and (2) the Notes, 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 the Borrower.

ARTICLE VII GUARANTY

SECTION 7.01. GUARANTY. The Guarantor hereby absolutely, unconditionally and irrevocably guarantees the punctual payment when due, whether at scheduled maturity or on any date of a required prepayment or by acceleration, demand or otherwise, of all obligations of the Borrower now or hereafter existing under or in respect of this Agreement and the Notes (including, without limitation, any extensions, modifications, substitutions, amendments or renewals of any or all of the foregoing obligations), whether direct or indirect, absolute or contingent, and whether for principal, interest, premiums, fees, indemnities, contract causes of action, costs, expenses or otherwise (such obligations being the "GUARANTEED OBLIGATIONS"), and agrees to pay any and all expenses (including, without limitation, reasonable fees and expenses of counsel) incurred by the Agent or any other Lender in enforcing any rights under this Article VII. Without limiting the generality of the foregoing, the Guarantor's liability shall extend to all amounts that constitute part of the Guaranteed Obligations and would be owed by the Borrower to the Agent or any Lender under or in respect of this Agreement or the Notes but for the fact that they are unenforceable or not allowable due to the existence of a bankruptcy, reorganization or similar proceeding involving the Borrower.

SECTION 7.02. GUARANTY ABSOLUTE. The Guarantor guarantees that the Guaranteed Obligations will be paid strictly in accordance with the terms of this Agreement and the Notes, regardless of any law, regulation or order now or hereafter in effect in any jurisdiction affecting any of such terms or the rights of any Lender with respect thereto. The obligations of the Guarantor under or in respect of this Article VII are independent of the Guaranteed Obligations or any other obligations of any the Borrower under or in respect of this Agreement and the Notes, and a separate action or actions may be brought and prosecuted against the Guarantor to enforce this Article VII, irrespective of whether any action is brought against the Borrower or whether the Borrower is joined in any such action or actions. The liability of the Guarantor under this Article VII shall be irrevocable, absolute and unconditional irrespective of, and the Guarantor hereby irrevocably waives any defenses it may now have or hereafter acquire in any way relating to, any or all of the following:

(a) any lack of validity or enforceability of this Agreement (other than this Article VII), the Notes or any agreement or instrument relating thereto;

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(b) subject to Section 9.01, any change in the time, manner or place of payment of, or in any other term of, all or any of the Guaranteed Obligations or any other obligations of the Borrower under or in respect of this Agreement or the Notes, or any other amendment or waiver of or any consent to departure from this Agreement or the Notes, including, without limitation, any increase in the Guaranteed Obligations resulting from the extension of additional credit to the Borrower or any of its Subsidiaries or otherwise;

(c) any taking, exchange, release or non-perfection of any collateral, or any taking, release or amendment or waiver of, or consent to departure from, any other guaranty, for all or any of the Guaranteed Obligations;

(d) any manner of application of collateral, or proceeds thereof, to all or any of the Guaranteed Obligations, or any manner of sale or other disposition of any collateral for all or any of the Guaranteed Obligations or any other obligations of the Borrower under this Agreement or the Notes or any other assets of the Borrower or any of its Subsidiaries;

(e) any change, restructuring or termination of the corporate structure or existence of the Borrower or any of its Subsidiaries;

(f) any failure of any Lender or the Agent to disclose to the Guarantor any information relating to the business, condition (financial or otherwise), operations, performance, properties or prospects of the Borrower now or hereafter known to such Lender or the Agent (the Guarantor waiving any duty on the part of the Lenders and the Agent to disclose such information); or

(g) any other circumstance or any existence of or reliance on any representation by any Lender or the Agent that might otherwise constitute a defense available to, or a discharge of, the Borrower or any other guarantor or surety.

This Article VII shall continue to be effective or be reinstated, as the case may be, if at any time any payment of any of the Guaranteed Obligations is rescinded or must otherwise be returned by any Lender or the Agent or any other

Person upon the insolvency, bankruptcy or reorganization of the Borrower or otherwise, all as though such payment had not been made.

SECTION 7.03. WAIVERS AND ACKNOWLEDGMENTS. (a) The Guarantor hereby unconditionally and irrevocably waives promptness, diligence, notice of acceptance, presentment, demand for performance, notice of nonperformance, default, acceleration, protest or dishonor and any other notice with respect to any of the Guaranteed Obligations and this Article VII and any requirement that any Lender or the Agent protect, secure, perfect or insure any Lien or any property subject thereto or exhaust any right or take any action against the Borrower or any other Person or any collateral.

(b) The Guarantor hereby unconditionally and irrevocably waives any right to revoke this Article VII and acknowledges that the guaranty under this Article VII is continuing in nature and applies to all Guaranteed Obligations, whether existing now or in the future.

(c) The Guarantor hereby unconditionally and irrevocably waives (i) any defense arising by reason of any claim or defense based upon an election of remedies by any Lender or the Agent that in any manner impairs, reduces, releases or otherwise adversely affects the subrogation, reimbursement, exoneration, contribution or indemnification rights of the Guarantor or other rights of the Guarantor to proceed against the Borrower, any other guarantor or any other Person or any collateral and (ii) any defense based on any right of set-off or counterclaim against or in respect of the obligations of the Guarantor hereunder.

(d) The Guarantor hereby unconditionally and irrevocably waives any duty on the part of any Lender or the Agent to disclose to the Guarantor any matter, fact or thing relating to the business, condition (financial or otherwise), operations, performance, properties or prospects of the Borrower or any of its Subsidiaries now or hereafter known by such Lender or the Agent.

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(e) The Guarantor acknowledges that it will receive substantial direct and indirect benefits from the financing arrangements contemplated by this Agreement and the Notes and that the waivers set forth in Section 7.02 and this Section 7.03 are knowingly made in contemplation of such benefits.

SECTION 7.04. SUBROGATION AND CONTRIBUTION. The Guarantor covenants and agrees that, until the obligations of the Borrower under this Agreement and the other Loan Documents have been fully paid and satisfied, any and all subrogation, contribution and other similar rights of the Borrower against or in respect of (A) the Borrower, (B) any of the assets and properties of the Borrower, or (C) any other co-obligor or indemnitor of any of the 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 the 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.) The Guarantor shall not 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 the Guarantor 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 Borrower 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. If (i) the Guarantor shall make payment to any Lender or the Agent of all or any part of the Guaranteed Obligations, (ii) all of the Guaranteed Obligations and all other amounts payable under this Article VII shall have been paid in full in cash and (iii) the Termination Date shall have occurred, the Lenders and the Agent will, at the Guarantor's request and expense, execute and deliver to the Guarantor appropriate documents, without recourse and without representation or warranty, necessary to evidence the transfer by subrogation to the Guarantor of an interest in the Guaranteed Obligations resulting from such payment made by the Guarantor pursuant to this Article VII.

SECTION 7.05. CONTINUING GUARANTY; ASSIGNMENTS. The guaranty under this Article VII is a continuing guaranty and shall (a) remain in full force and effect until the later of (i) the payment in full of the Guaranteed Obligations and all other amounts payable under this Article VII and (ii) the Termination Date, (b) be binding upon the Guarantor, its successors and assigns and (c) inure to the benefit of and be enforceable by the Lenders and the Agent and their successors, transferees and assigns. Without limiting the generality of clause (c) of the immediately preceding sentence, any Lender may assign or otherwise transfer all or any portion of its rights and obligations under this Agreement (including, without limitation, all or any portion of its Commitments, the Advances owing to it and the Note or Notes held by it) to any other Person, and such other Person shall thereupon become vested with all the benefits in respect thereof granted to such Lender herein or otherwise, in each case as and to the extent provided in Section 9.07. The Guarantor shall not have the right to assign its rights hereunder or any interest herein without the prior written consent of the Lenders.

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SECTION 8.01. 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 Notes), 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 the Borrower pursuant to the terms of this Agreement.

SECTION 8.02. 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 Assignment and Acceptance entered into by such Lender, as assignor, and an Eligible Assignee, as assignee, as provided in Section 9.07; (ii) may consult with legal counsel (including counsel for the Borrower), 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 the Borrower or the Guarantor or to inspect the property (including the books and records) of the Borrower or the Guarantor; (v) shall not be responsible to any Lender for the due execution, legality, validity, enforceability, genuineness, sufficiency or value of 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 or telex) believed by it to be genuine and signed or sent by the proper party or parties; and (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 the Borrower, the Guarantor or a Lender.

SECTION 8.03. CITIBANK AND AFFILIATES. With respect to its Commitment, the Advances made by it and the Note issued to it, Citibank 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 Citibank in its individual capacity. Citibank 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, the Guarantor, any of its Subsidiaries and any Person who may do business with or own securities of any the Guarantor or any such Subsidiary, all as if Citibank were not the Agent and without any duty to account therefor to the Lenders.

SECTION 8.04. 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 8.05. INDEMNIFICATION. (a) The Lenders agree to indemnify the Agent (to the extent not reimbursed by the Borrower), 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 Borrower. In the case of any investigation, litigation or proceeding giving rise to any Indemnified Costs, this Section 8.05 applies whether any such investigation, litigation or proceeding is brought by the Agent, any Lender or a third party.

(b) For purposes of this Section 8.05, the Lenders' respective ratable shares of any amount shall be determined, at any time, according to their respective Commitments at such time. The failure of any Lender to reimburse any Agent promptly upon demand for its ratable share of any amount

required to be paid by the Lenders to such Agent as provided herein shall not relieve any other Lender of its obligation hereunder to reimburse such Agent for its ratable share of such amount, but no Lender shall be responsible for the failure of any other Lender to reimburse such Agent 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 8.05 shall survive the payment in full of principal, interest and all other amounts payable hereunder and under the other Loan Documents.

SECTION 8.06. SUCCESSOR AGENT. The Agent may resign at any time by giving written notice thereof to the Lenders and the Borrower and may be removed at any time with or without cause by the Required Lenders. Upon any such resignation or removal, 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 or the Required Lenders' removal of the retiring Agent, 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 or removal 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 8.07. OTHER AGENTS. Each Lender hereby acknowledges that neither the 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.

ARTICLE IX MISCELLANEOUS

SECTION 9.01. AMENDMENTS, ETC. No amendment or waiver of any provision of this Agreement or the Committed Notes, nor consent to any departure by the Borrower or the Guarantor 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, 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, the Committed Advances or any fees or other amounts payable hereunder, (d) postpone any date fixed for any payment of principal of, or interest on, the Committed Advances or any fees or other amounts payable hereunder, (e) change the percentage of the Commitments or of the aggregate unpaid principal amount of the Committed Advances, or the number of Lenders, that shall be required for the Lenders or any of them to take any action hereunder or (f) amend this Section 9.01; and PROVIDED further that 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.

SECTION 9.02. NOTICES, ETC. All notices and other communications provided for hereunder shall be in writing (including telecopier, telegraphic or telex communication) and mailed, telecopied, telegraphed, telexed or delivered, if to the Holding Company or to the Operating Company, at its address at 555 Broadway, New York, New York 10012, Attention: Kevin McEnery, Chief Financial Officer, and Charles Deull, Senior Vice President General Counsel. if to any Initial Lender, at its Domestic Lending Office specified opposite its name on Schedule I hereto; if to any other Lender, at its Domestic Lending Office specified in the Assignment and Acceptance pursuant to which it became a Lender; and if to the Agent, at its address at Two Penns Way, New Castle, Delaware 19720, Attention: Bank Loan Syndications Department; or, as to the Borrower, the Guarantor 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 Borrower and the Agent. All such notices and communications shall, when mailed, telecopied, telegraphed or telexed, be effective when deposited in the mails, telecopied, delivered to the telegraph company or confirmed by telex answerback, respectively, except that notices and communications to the Agent pursuant to Article II, III or VII shall not be effective until received by

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the Agent. Delivery by telecopier of an executed counterpart of any amendment or waiver of any provision of this Agreement or the Notes or of any Exhibit hereto to be executed and delivered hereunder shall be effective as delivery of a manually executed counterpart thereof.

SECTION 9.03. 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 9.04. COSTS AND EXPENSES. (a) The Borrower agrees 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 Borrower further agrees 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 9.04(a).

(b) The Borrower agrees 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 the Guarantor or any of its Subsidiaries or any Environmental Claim relating in any way to the Guarantor 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 9.04(b) applies, such indemnity shall be effective whether or not such investigation, litigation or proceeding is brought by the 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 Borrower also agrees that no Indemnified Party shall have any liability (whether direct or indirect, in contract, tort or otherwise) to the Borrower, the Guarantor 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.

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(c) If any payment of principal of, or Conversion of, any Eurodollar Rate Advance or LIBO Rate Advance is made by the 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 Notes 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 9.07 as a result of a demand by the Borrower pursuant to Section 9.07(a), the 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 Borrower hereunder, the agreements and obligations of the Borrower contained in Sections 2.11, 2.14 and 9.04 shall survive the payment in full of principal, interest and all other amounts payable hereunder and under the other Loan Documents.

SECTION 9.05. 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 Notes 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 the Borrower or the Guarantor against any and all of the obligations of the Borrower or the Guarantor, as the case may be, now or hereafter existing under this Agreement and the 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 unmatured. Each Lender agrees promptly to notify the Borrower or the Guarantor, as the case may be, 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 9.06. BINDING EFFECT. This Agreement shall become effective (other than Sections 2.01 and 2.03, 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 Borrower, the Guarantor 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 Borrower, the Guarantor, the Agent and each Lender and their respective successors and assigns, except that the Borrower shall not have the right to assign its rights hereunder or any interest herein without the prior written consent of the Lenders.

SECTION 9.07. ASSIGNMENTS AND PARTICIPATIONS. (a) Each Lender may and, if demanded by the Borrower (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, the Committed Advances owing to it and the Committed Note or Notes held by it) with the consent of the Borrower, which consent shall not be unreasonably withheld or delayed; PROVIDED, HOWEVER, that (i) each such assignment shall be of a constant, and not a varying, percentage of all rights and obligations under this Agreement (other than any right to make Competitive Bid Advances, Competitive Bid Advances owing to it and 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 Borrower pursuant to this Section 9.07(a) shall be arranged by the Borrower 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 Borrower pursuant to this Section 9.07(a) unless and until such Lender shall have received one or more payments from either the Borrower 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, and (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 Committed Note subject to such assignment and a processing and recordation fee of \$3,000.

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(b) 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 hereunder and (y) the Lender 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).

(c) 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 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 Borrower or the performance or observance by the Borrower or the Guarantor 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 Committed 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 Borrower.

(f) The Agent shall maintain at its address referred to in Section 9.02 a copy of 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 Borrower, the Guarantor, 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 Borrower, the Guarantor 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 the Guarantor 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 Borrower 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 Borrower, the Guarantor, 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 the Borrower or the Guarantor therefrom, except to the extent that such amendment, waiver or consent would reduce the principal of, or interest on, the Notes 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, the Notes 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.

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(h) Any Lender may, in connection with any assignment or participation or proposed assignment or participation pursuant to this Section 9.07, disclose to the assignee or participant or proposed assignee or participant, any information relating to the Borrower or the Guarantor furnished to such Lender by or on behalf of the Borrower or the Guarantor; 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 Borrower or the Guarantor 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 9.08. CONFIDENTIALITY. Neither the Agent nor any Lender shall disclose any Confidential Information to any other Person without the consent of the Borrower, 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 9.07(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 and (c) as requested or required by any state, federal or foreign authority or examiner regulating banks or banking.

SECTION 9.10. GOVERNING LAW. This Agreement and the Notes shall be governed by, and construed in accordance with, the laws of the State of New York.

SECTION 9.11. 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.

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SECTION 9.12. WAIVER OF JURY TRIAL. Each of the Borrower, the Guarantor, 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 the Notes or the actions of the Agent or any Lender in the negotiation, administration, performance or enforcement thereof.

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be executed by their respective officers thereunto duly authorized, as of the date first above written.

SCHOLASTIC INC.,
as Borrower

By /s/

Title:

SCHOLASTIC CORPORATION
as Guarantor

By /s/

Title:

CITIBANK, N.A.,
as Agent

By /s/

Title:

INITIAL LENDERS

CITIBANK, N.A.

By /s/

Title:

THE CHASE MANHATTAN BANK

By /s/

Title:

CREDIT SUISSE FIRST BOSTON

By /s/

Title:

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FLEET BANK, N.A.

By /s/

Title:

SUMMIT BANK

By /s/

Title:

DEUTSCHE BANK AG, NEW YORK AND/OR
CAYMAN ISLANDS BRANCH

By /s/

Title:

By /s/

Title:

SUNTRUST BANK

By /s/

Title:

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SCHEDULE I

COMMITMENTS AND APPLICABLE LENDING OFFICES

NAME OF INITIAL LENDER	COMMITMENT	DOMESTIC LENDING OFFICE	EURODOLLAR LENDING OFFICE
Citibank, N.A.	\$82,500,000	399 Park Avenue New York, NY 10043 Attn: Diane Pockaj T: (212) 559-4649 F: (212) 793-0289	399 Park Avenue New York, NY 10043 Attn: Diane Pockaj T: (212) 559-4649 F: (212) 793-0289
The Chase Manhattan Bank	\$50,000,000	E. 36 Midland Avenue Paramus, NJ 07652 Attn: Carmen Mendoza T: (201) 599-6681 F: (201) 599-6672	E. 36 Midland Avenue Paramus, NJ 07652 Attn: Carmen Mendoza T: (201) 599-6681 F: (201) 599-6672
Credit Suisse First Boston	\$82,500,000	5 World Trade Center New York, NY 10048 Attn: Nilsa Ware T: (212) 322-5094 F: (212) 355-0593	5 World Trade Center New York, NY 10048 Attn: Nilsa Ware T: (212) 322-5094 F: (212) 355-0593
Deutsche Bank AG, New York and/or Cayman Islands Branch	\$50,000,000	31 W 52nd Street New York, NY 10019 Attn: Nicole Vipperman T: (212) 469-4101	31 W 52nd Street New York, NY 10019 Attn: Nicole Vipperman T: (212) 469-4101

Fleet Bank (FKA BankBoston, N.A.)	\$25,000,000	1185 Avenue of the Americas New York, NY 10036 Attn: Christopher Mayrose T: (212) 819-5727 F: (212) 819-4120	1185 Avenue of the Americas New York, NY 10036 Attn: Christopher Mayrose T: (212) 819-5727 F: (212) 819-4120
Summit Bank	\$10,000,000	750 Walnut Avenue Cranford, NJ 07016 Attn: Carter Evans T: (908) 709-6421 F: (908) 709-6433	750 Walnut Avenue Cranford, NJ 07016 Attn: Carter Evans T: (908) 709-6421 F: (908) 709-6433
SunTrust Bank	\$50,000,000	200 South Orange Avenue Mail Code: FL-Orlando-1106 Orlando, FL 32801 Attn: William Barr T: (407) 237-4636 F: (407) 237-4076	200 South Orange Avenue Mail Code: FL-Orlando-1106 Orlando, FL 32801 Attn: William Barr T: (407) 237-4636 F: (407) 237-4076

SCHEDULE 5.02(a)

EXISTING LIENS AND ENCUMBRANCES

- 1) An Operating Overdraft Agreement was entered into on September 12, 1994 between Scholastic Canada Ltd. ("SCL") and Canadian Imperial Bank of Commerce has a negative pledge that SCL cannot give security over any of its assets to any other lender.
- 2) In 1983, the City of Jefferson, Missouri provided financing to Scholastic Inc. through the issuance of Industrial Revenue bonds to complete a substantial addition to its national distribution center in Jefferson City, Missouri. These Bonds were renegotiated in March 1992. Scholastic has issued to the Bond Trustee an unconditional guarantee of principal and interest. Land acquired in Jefferson City, Missouri, during f/y 1982, a building at Scholastic's national distribution center and certain equipment are pledged as security.
- 3) In December 1993, Scholastic entered into an agreement pursuant to which the IDA provides Scholastic with financial assistance through the issuance of IDA Bonds in connection with the purchase of furniture, fixtures and equipment for use at Scholastic's headquarters at 555 Broadway, New York, New York. In connection with such financial assistance, Scholastic has granted the IDA a security interest in such furniture, fixtures and equipment.
- 4) Liens given to the Screen Actors Guild ("SAG") in connection with the production of The Magic School Bus property

Schedule 4.01(i)

SCHOLASTIC CORPORATION
LIST OF SUBSIDIARIES
MAY 31, 2000

DOMESTIC SUBSIDIARIES	STATE OF INCORPORATION
Scholastic Inc.	New York
Scholastic Book Services, Inc.	Delaware
Scholastic Book Clubs, Inc.	Missouri
Scholastic Entertainment Inc.	New York
SE Distribution Inc. (SUBSIDIARY OF SCHOLASTIC ENTERTAINMENT)	Delaware
Scholastic UK Group Ltd.	Delaware
Weston Woods Studios, Inc.	Delaware
Georgetown Studios, Inc. (SUBSIDIARY OF WESTON WOODS STUDIOS, INC.)	Connecticut
Lectorum Publications, Inc.	New York
The Electronic Bookshelf, Inc.	Indiana
Quality Education Data, Inc.	Delaware
The Scholastic Store, Inc.	New York
FOREIGN SUBSIDIARIES	JURISDICTION
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 (Aust.) Pty. Ltd.	Australia
Scholastic (Barbados), Inc.	Barbados
Scholastic Canada Ltd.	Canada
Scholastic Productions Canada Ltd.	Canada
Scholastic Bookfairs Canada Inc.	Canada

Scholastic Ltd. England
School Book Fairs Ltd. England
Scholastic Book Clubs Ltd. England
Red House Books Ltd. England
Scholastic Publication Ltd. England
Scholastic Educational Magazines Ltd. England
Red House Book Clubs Ltd. England
Scholastic Hong Kong Limited Hong Kong
School Book Fairs Ltd. Ireland
Scholastic India Private Limited India
Scholastic Mexico, S.A. de C.V. Mexico
Scholastic New Zealand Ltd. New Zealand
Scholastic Argentina S.A. Argentina

EXHIBIT A-1 - FORM OF COMMITTED PROMISSORY NOTE

Dated: _____, 200_

FOR VALUE RECEIVED, the undersigned, SCHOLASTIC INC., a New York corporation (the "BORROWER"), HEREBY PROMISES TO PAY to the order of _____ (the "LENDER") for the account of its Applicable Lending Office on the later of the Termination Date and the date designated pursuant to Section 2.06 of the Credit Agreement (each as defined in the Credit Agreement referred to below) the aggregate principal amount of the Committed Advances made by the Lender to the Borrower pursuant to the Credit Agreement dated as of June 22, 2000 among the Borrower, Scholastic Corporation, the Lender and certain other lenders parties thereto, Salomon Smith Barney Inc. and Credit Suisse First Boston, as joint lead arrangers, Credit Suisse First Boston, as syndication agent, and Citibank, N.A. 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 such date.

The Borrower promises to pay interest on the unpaid principal amount of each Committed Advance from the date of such Committed 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 Citibank, as Agent, at 399 Park Avenue, New York, New York 10043, in same day funds. Each Committed 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 Committed 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 Committed Advances by the Lender to the Borrower from time to time, the indebtedness of the Borrower resulting from each such Committed 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.

SCHOLASTIC INC.

By _____ Title:

ADVANCES AND PAYMENTS OF PRINCIPAL

Table with columns: DATE, AMOUNT OF ADVANCE, AMOUNT OF PRINCIPAL PAID OR PREPAID, UNPAID PRINCIPAL BALANCE, NOTATION MADE BY. The table body contains multiple rows of dashes representing a blank grid for data entry.

EXHIBIT A-2 - FORM OF
COMPETITIVE BID
PROMISSORY NOTE

U.S.\$ _____

Dated: _____, 200_

FOR VALUE RECEIVED, the undersigned, SCHOLASTIC INC., a New York 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 22, 2000 among the Borrower, Scholastic Corporation, the Lender and certain other lenders parties thereto, Salomon Smith Barney Inc. and Credit Suisse First Boston, as joint lead arrangers, Credit Suisse First Boston, as syndication agent, and Citibank, N.A., 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 the United States to Citibank, as agent, for the account of the Lender at the office of Citibank, at 399 Park Avenue, New York, New York 10043 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.

SCHOLASTIC INC.

By _____

Title:

EXHIBIT B-1 - FORM OF NOTICE OF
COMMITTED BORROWING

Citibank, N.A., as Agent
for the Lenders parties
to the Credit Agreement
referred to below
Two Penns Way
New Castle, Delaware 19720

[Date]

Attention: Bank Loan Syndications Department

Ladies and Gentlemen:

The undersigned, Scholastic Inc., refers to the Credit Agreement, dated as of June 22, 2000 (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, certain Lenders parties thereto, Salomon Smith Barney Inc. and Credit Suisse First Boston, as joint lead arrangers, Credit Suisse First Boston, as syndication agent, and Citibank, N.A., 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 Committed Borrowing under the Credit Agreement, and in that connection sets forth below the information relating to such Committed Borrowing (the "PROPOSED COMMITTED BORROWING") as required by Section 2.02(a) of the Credit Agreement:

(i) The Business Day of the Proposed Committed Borrowing is _____, 200_.

(ii) The Type of Advances comprising the Proposed Committed Borrowing is [Base Rate Advances] [Eurodollar Rate Advances].

(iii) The aggregate amount of the Proposed Committed Borrowing is \$-----.

[(iv) The initial Interest Period for each Eurodollar Rate Advance made as part of the Proposed Committed 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 Committed 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 Committed 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 Committed Borrowing or from the application of the proceeds therefrom, that constitutes a Default.

Very truly yours,

SCHOLASTIC INC.

By _____
Title:

EXHIBIT B-2 - FORM OF NOTICE OF
COMPETITIVE BID BORROWING

Citibank, N.A., as Agent
for the Lenders parties
to the Credit Agreement
referred to below
Two Penns Way
New Castle, Delaware 19720

[Date]

Attention: Bank Loan Syndications Department

Ladies and Gentlemen:

The undersigned, Scholastic Inc., refers to the Credit Agreement, dated as of June 22, 2000 (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, certain Lenders parties thereto, Salomon Smith Barney Inc. and Credit Suisse First Boston, as joint lead arrangers, Credit Suisse First Boston, as syndication agent, and Citibank, N.A., 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,

SCHOLASTIC INC.

By _____
Title:

in the Credit Agreement), Salomon Smith Barney Inc. and Credit Suisse First Boston, as joint lead arrangers, Credit Suisse First Boston, as syndication agent, and Citibank, N.A., 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 Competitive Bid Notes) equal to the percentage interest specified on Schedule 1 hereto of all outstanding rights and obligations under the Credit Agreement (other than in respect of Competitive Bid Advances and Competitive Bid Notes). After giving effect to such sale and assignment, the Assignee's Commitment and the amount of the Committed 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 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 Borrower or the Guarantor or the performance or observance by the Borrower or the Guarantor of any of its obligations under any Loan Document or any other instrument or document furnished pursuant thereto; and (iv) attaches the Committed Note, if any held by the Assignor [and requests that the Agent exchange such Committed Note for a new Committed Note payable to the order of [the Assignee in an amount equal to the Commitment assumed by the Assignee pursuant hereto or new Committed 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 the Committed 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 the Committed 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.

Assignment and Acceptance

Percentage interest assigned: _____%
Assignee's Commitment: \$_____
Aggregate outstanding principal amount of Revolving
Credit Advances assigned: \$_____
Principal amount of Committed Note payable to Assignee: \$_____
Principal amount of Committed Note 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]

Eurodollar Lending Office:
[Address]

* This date should be no earlier than five Business Days after the delivery
of this Assignment and Acceptance to the Agent.

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Accepted this

____ day of _____, 200_

CITIBANK, N.A., as Agent

By _____
Title:

Approved this ____ day

of _____, 200_

SCHOLASTIC INC.

By _____
Title:

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EXHIBIT D - FORM OF
OPINION OF COUNSEL
TO THE BORROWER

June __, 2000

To each of the Lenders parties to the Credit Agreement dated as of the date
hereof among Scholastic Corporation, Scholastic Inc., said Lenders and
Citibank, N.A., as Agent for said Lenders, and to Citibank, N.A., 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 the date hereof (the "CREDIT Agreement"), by
and among Scholastic Inc. (the "BORROWER"), Scholastic Corporation (the
"GUARANTOR") and the Lenders parties thereto, Salomon Smith Barney Inc. and
Credit Suisse First Boston, as joint lead arrangers, Credit Suisse First Boston,
as syndication agent, and Citibank, N.A., as Agent for said Lenders. Terms
defined in the Credit Agreement are used herein as therein defined.

I have acted as counsel for the Borrower and the Guarantor in connection with the preparation, execution and delivery of the Credit Agreement.

In that connection, I have examined:

- (1) The Credit Agreement.
- (2) The documents furnished by the Borrower and the Guarantor pursuant to Article III of the Credit Agreement.
- (3) The Certificate of Incorporation of each of the Borrower and the Guarantor and all amendments thereto (the "CHARTER").
- (4) The by-laws of each of the Borrower and the Guarantor and all amendments thereto (the "BY- LAWS").
- (5) A certificate of the Secretary of State of Delaware, dated _____, 2000, attesting to the continued corporate existence and good standing of the Guarantor in that State.
- (6) A certificate of the Secretary of State of New York, dated _____, 2000 attesting to the continued corporate existence and good standing of the Borrower in that State.

I also examined the originals, or copies certified to our satisfaction, of the documents listed in certificates of the chief financial officers of the Borrower and the Guarantor, 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 the Borrower's right to borrow money or the Borrower's or the Guarantor's obligations under the Credit Agreement or the Notes. In addition, I have examined the originals, or copies certified to our satisfaction, of such other corporate records of the Borrower and the Guarantor, certificates of public officials and of officers of the Borrower and the Guarantor, and agreements, instruments and other documents, as I have deemed necessary as a basis for the opinions expressed below. As to questions of fact material to such opinions, I have, when relevant facts were not independently established by us,

relied upon certificates of the Borrower and the Guarantor or their officers or of public officials. I have assumed the due execution and delivery, pursuant to due authorization, of the Credit Agreement by the Initial Lenders and the Agent.

My 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 I have deemed necessary, I am of the following opinion:

1. Each of the Borrower and the Guarantor 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 of the Borrower and the Guarantor of the Credit Agreement and, in the case of the Borrower, the Notes, and the consummation of the transactions contemplated thereby, are within the Borrower's and the Guarantor's corporate powers, have been duly authorized by all necessary corporate action, and do not contravene (i) the Charter or the By- laws of the Borrower or the Guarantor, as applicable, or (ii) any law, rule or regulation applicable to the Borrower or the Guarantor (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 the Borrower's right to borrow money or the Borrower's or the Guarantor's obligations under the Credit Agreement or, in the case of the Borrower, the Notes. The Credit Agreement and the Notes have been duly executed and delivered on behalf of the Borrower. The Credit Agreement has been duly executed and delivered on behalf of the Guarantor.
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 the Borrower and the Guarantor of the Credit Agreement and, in the case of the Borrower, the Notes.
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 the Borrower enforceable against the Borrower in accordance with their respective terms. The Credit Agreement is the legal, valid and binding obligation of the Guarantor enforceable against the Guarantor in accordance with its terms.
5. To the best of my knowledge, there are no pending or overtly threatened actions or proceedings against the Guarantor 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) My 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) My 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).

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(c) I 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 the Notes may be sought that limits the rates of interest legally chargeable or collectible.

Very truly yours,

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EXHIBIT E - FORM OF FINANCIAL COVENANTS COMPLIANCE CERTIFICATE

FINANCIAL COVENANTS COMPLIANCE CERTIFICATE

respecting

SCHOLASTIC CORPORATION

and

SCHOLASTIC INC.

[MONTH AND DATE], 200

Pursuant to the Credit Agreement dated as of June 22, 2000 (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 (the "GUARANTOR") and the [PRINT TITLE] of Scholastic Inc. (the "BORROWER"), hereby certify to Citibank, N.A., as Agent (the "AGENT"), and to each of the Lenders, as of the date hereof that:

(a) the representations and warranties contained in Section 4.01 are correct as though made on and as of the date hereof;

(b) no event has occurred and is continuing that constitutes a Default; and

(c) attached hereto are the calculations of, and the confirmations of the Guarantor's compliance with, the financial covenants set forth in Sections 5.02(e) and 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: _____, 19

(SIGNATURE)

DATE SIGNED: _____, 19

EMPLOYMENT AGREEMENT

This AGREEMENT is made as of May 25, 2000, effective October 1, 1999, by and between SCHOLASTIC INC., its affiliates and subsidiaries ("Scholastic" or the "Company") and JEAN FEIWEL ("Feiweil").

W I T N E S S E T H:

WHEREAS, Feiweil is currently employed by Scholastic; and

WHEREAS, Scholastic wishes to continue the employment of Feiweil as set forth in this Agreement; and

WHEREAS, Feiweil is willing to serve in the employ of Scholastic upon the terms and conditions set forth below.

NOW, THEREFORE, in consideration of the premises and the mutual promises and agreements set forth below, Scholastic and Feiweil agree as follows:

1. TERM OF AGREEMENT. The term of this Agreement shall be three (3) years in duration, commencing on October 1, 1999, and ending September 30, 2002, unless otherwise terminated in accordance with Section 4 of this Agreement.

2. EMPLOYMENT. During the term of this Agreement, Scholastic shall employ Feiweil, and Feiweil shall be employed by Scholastic as Senior Vice President, Scholastic Inc., Publisher, Scholastic Children's Book Publishing at Scholastic's offices in New York City. Feiweil will report directly to Barbara Marcus ("Marcus"), Executive Vice President of Scholastic Inc. and President, Scholastic Children's Book Publishing. In the event that Marcus shall cease to function as the individual to whom Feiweil reports, and Feiweil shall not approve, in writing, of the choice of any successor of Marcus to whom she shall have direct reporting responsibilities, Feiweil shall be entitled to terminate her employment in accordance with the provisions of paragraph 4(f), below.

3. COMPENSATION.

(a) BASE SALARY. Scholastic shall pay to Feiweil an annual salary of Four Hundred Seventy-Five Thousand Dollars (\$475,000) through September 30, 2000, Four Hundred Eighty Five Thousand Dollars (\$485,000) as of October 1, 2000 and Five Hundred Thousand Dollars (\$500,000) as of October 1, 2001, payable in equal bi-monthly installments in accordance with Scholastic's customary payroll and withholding practices.

(b) SIGNING BONUS. Scholastic shall pay to Feiweil a signing bonus of Two Hundred Fifty Thousand Dollars (\$250,000) upon the execution of this Agreement.

(c) BONUS OPPORTUNITY. During each year of the term of this Agreement, Feiweil will be eligible for a bonus of 35% of her base salary, in accordance with Scholastic's bonus program in effect for each such period. Feiweil shall receive one-half of such bonus unconditionally on an annual basis. The remaining one-half of such bonus shall be subject to reasonable personal goals set by Richard Robinson, CEO and/or Marcus or, if not Marcus, such President of Scholastic Children's Book Publishing as may have been appointed to replace Marcus, which goals shall be subject to Feiweil's approval, and will be subject only to Feiweil's performance and not to performance of the Book Group or the Company. The bonus shall be payable no later than September 15th of each year during the term of this Agreement.

(d) STOCK OPTIONS. During fiscal 2000-01, Scholastic will award Feiweil options to purchase 25,000 shares of Scholastic Corporation Common Stock on the date of the regular meeting of the Board of Directors next following the execution of this Agreement, or no later than May 31, 2000. Feiweil shall be entitled to exercise such options pursuant to the "cashless exercise" program provided by Goldman, Sachs & Co. or the equivalent of such program. The options shall become vested one year from the award date. The exercise price of the options shall be the average of the high and low price of the Scholastic Corporation Common Stock on the award date.

(e) HEALTH INSURANCE. During each year of the term of this Agreement, Scholastic shall provide health insurance coverage to Feiweil in accordance with Scholastic's health insurance program in effect of each such period.

(f) VACATION. Feiweil shall be entitled to five (5) weeks' vacation during each year of the term of this Agreement. In the event that Feiweil shall not have fully used the allotted vacation time for any year during the term of this Agreement, upon the termination of her employment with Scholastic, Feiweil and Scholastic shall discuss and mutually agree upon the amount of compensation due her with respect to such unused vacation time. Feiweil shall be entitled to be compensated for the time not used in accordance with her base salary for the applicable time period.

(g) TRAVEL AND ENTERTAINMENT EXPENSES. Feiweil shall be entitled to be reimbursed for all reasonable travel and entertainment expenses according to the same terms and conditions as have been provided throughout Feiweil's employment by Scholastic.

(h) CAR LEASE. Scholastic shall continue to lease a car for Feiweil throughout the term of this Agreement according to the same terms and conditions as have been provided throughout Feiweil's prior employment by Scholastic.

4. TERMINATION OF AGREEMENT. This Agreement shall be terminated under the following circumstances:

(a) Automatically on the date of Feiwei's death; provided, however, that in the event of Feiwei's death Scholastic shall pay to Feiwei's husband, if he is then living, or to her estate if he has predeceased her, a lump sum payment equivalent to six (6) month's base salary under this Agreement. The foregoing payment shall not in any way affect Feiwei's husband's ongoing entitlements under any Scholastic program in effect with respect to death or retirement benefits.

(b) Immediately upon written notice by Scholastic of a termination for Disability. For purposes of this Agreement, Disability shall mean Feiwei's failure to regularly perform her material duties and responsibilities hereunder by reason of mental or physical illness or incapacity, as determined by a physician mutually acceptable to Feiwei and Scholastic, for 180 days (whether continuous or not) during any period of 360 consecutive days.

(c) Upon the expiration of thirty (30) days prior written notice, and opportunity to cure, by Scholastic to Feiwei of termination for Cause. For purposes of this Agreement, Cause shall mean gross negligence or malfeasance in the performance of her duties; a willful and continuing material failure or refusal, after the aforesaid notice and opportunity to cure, to perform substantially all of her duties and responsibilities under this Agreement; any action or conduct which could reasonably be expected by Feiwei to injure materially the reputation, business or business relationships of Scholastic; conviction of Feiwei for commission of a felony or any crime involving moral turpitude, fraud or misrepresentation; or breach of any material obligation under this Agreement. A notice of termination for Cause shall set forth in detail the specific basis, facts and circumstances which provide the basis for the termination for Cause. The date of the termination for Cause shall be the date indicated in the notice of termination for Cause .

(d) Immediately upon written notice by Scholastic of a termination without Cause, provided, however, that in the event of a termination without Cause Scholastic shall pay severance to Feiwei as set forth at paragraph 5(b) below:

(e) Within three (3) weeks after written notice by Feiwei of her intent to resign for any reason (other than for Good Reason as provided at paragraph 4(f) below), or for no reason. Under such circumstance, Feiwei shall forfeit all benefits under this Agreement and shall be subject to paragraph 7 of this Agreement.

(f) Upon the expiration of thirty (30) days prior written notice, and opportunity to cure, by Feiwei to Scholastic of a termination for Good Reason. For purposes of this Agreement, Good Reason shall mean any reduction in or failure to pay Base Salary; a failure by Scholastic to provide participation in employee benefits plans on terms at least as good as generally available to other employees of Scholastic; failure of

any successor to assume, in writing, the obligations of Scholastic under this Agreement; the hiring of a new Group Head of Scholastic Children's Book Publishing & Distribution to whom Feiwei would report, without Feiwei's agreement; a material change in Feiwei's job title or responsibilities, without her prior approval; a material change in Scholastic's publishing goals, which results in new goals inconsistent with prior goals and unacceptable to Feiwei. A notice of termination for Good Reason shall set forth in detail the specific basis, facts and circumstances which provide the basis for the termination for Good Reason, and must be given within thirty (30) days of Feiwei's actual knowledge of the triggering event. In the event of a termination for Good Reason Scholastic shall pay severance to Feiwei as set forth at paragraph 5(b) below.

5. CONSEQUENCES OF TERMINATION.

(a) Upon the termination of Feiwei's employment in accordance with Section 4 above, and subject to the provisions set forth at paragraph 5(b) below, Scholastic shall pay and provide Feiwei (or her surviving spouse or estate, if applicable) the following amounts and benefits: any unpaid Base Salary or bonus earned through the date of termination, unpaid accrued vacation and business expenses through the date of termination, and any benefits due under any benefit plan, in accordance with the terms of the plan, for the period prior to termination (collectively the "Accrued Obligations").

(b) In the event Feiwei is terminated without Cause or Feiwei terminates her employment for Good Reason, Scholastic shall pay and provide in full settlement of all amounts owed Feiwei under this Agreement, in addition to the Accrued Obligations, a lump sum payment equal to 135 percent of Feiwei's annual base salary under this Agreement, as in effect for the year during which such termination occurs, such amount to be paid within 10 days of Feiwei's termination. The payment of the foregoing amounts shall be contingent upon both parties signing a mutual release of all claims arising out of Feiwei's employment with Scholastic or termination thereof, in such form as mutually, reasonably agreed upon by both parties.

(c) The terms of any termination under Section 4(d), (e) or (f) above shall be kept confidential by the parties and both Scholastic and Feiwei shall mutually agree upon the form, substance and timing of any press release regarding same.

(d) In the event Feiwei is terminated on account of her Disability, Scholastic shall pay and provide, in addition to the Accrued Obligations, a lump sum payment equal to the annual base salary under this Agreement, as in effect for the year during which such disability occurs, such amount to be paid within

10 days of Feiwei's termination, reduced by any disability benefits or Workers Compensation salary replacement she received from any program sponsored by Scholastic or a governmental entity. Scholastic and its affiliated entities shall have no further obligations to Feiwei under this Agreement.

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6. CONFIDENTIAL INFORMATION. Feiwei agrees that upon the conclusion of the term of this Agreement, she will not (except on behalf of Scholastic), without the express written consent of Scholastic, retain in any form any customer list or other confidential or proprietary written or otherwise recorded information, trade secrets or innovations of any kind relating to Scholastic's business, clients, plans, proposals or financial condition. Feiwei also will not use for her own benefit or divulge at any time any such customer lists or other confidential or proprietary information to persons other than directors, officers or employees of Scholastic, unless pursuant to good faith use in furtherance of her obligations hereunder or her compliance with lawful legal process requiring her testimony on, or disclosure of such matters. Notwithstanding the foregoing restrictions, Feiwei shall be entitled to retain her own Rolodex and her correspondence, provided, however, that such correspondence shall not contain sales figures or financial information related to Scholastic's business.

7. NON-COMPETE/NON-SOLICITATION.

(a) During the term of the Agreement, without regard to any termination hereof, except where Feiwei is terminated without Cause or Feiwei terminates for Good Reason (the "Restriction Period"), Feiwei shall not enter into competition with Scholastic Book Group, provided however, that competition shall not include Feiwei's employment by a non-competitive division or business unit of a company which is in competition with Scholastic Book Group, provided Feiwei is not involved with the division or business unit of such company that is in competition.

(b) During the Restriction Period, Feiwei shall not directly or indirectly solicit for competitive products or induce any customer of Scholastic Book Group to terminate, or otherwise to cease, reduce, or diminish in any way its relationship with Scholastic Book Group.

(c) During the Restriction Period, Feiwei shall not recruit, solicit or induce any nonclerical employees of Scholastic Book Group to terminate their employment with, or otherwise cease their relationship with Scholastic Book Group, or hire or assist another person or entity to hire any then-current nonclerical employee of Scholastic Book Group.

(d) If at the time of enforcement of this Section a court holds that the restrictions stated herein are unreasonable under the circumstances then existing, the parties hereto agree that the maximum period or scope reasonable under such circumstances shall be substituted for the stated period or scope and that the court shall be allowed to revise the restrictions contained herein to cover the maximum period and scope permitted by law.

8. NOTICES. All notices which a party is required or may desire to give to the other party under this Agreement shall be given in writing and shall be either delivered

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personally or sent by certified or registered mail, return receipt requested, to the addresses below. Notices shall be deemed given when received or two (2) days after mailing, whichever is earlier.

Richard Robinson
President and CEO
Scholastic Inc.
555 Broadway
New York, NY 10012

Jean Feiwei
Senior Vice President
Scholastic Inc.
555 Broadway
New York, NY 10012

9. ASSIGNMENT. This Agreement shall not be assigned by Feiwei. This Agreement shall not be assigned by Scholastic, except in connection with a merger or transfer by Scholastic of all or substantially all of its assets.

10. WAIVER. The waiver of any breach of any term of this Agreement, which waiver must be in writing, shall not be deemed to constitute waiver of any subsequent breach of the previously waived term or of any other term or condition.

11. SEVERABILITY. Should any provision of this Agreement be held invalid, illegal or unenforceable, it shall be deemed to be modified so that its purpose can be lawfully effectuated and enforced and the balance of the Agreement shall remain in full force and effect.

12. ARBITRATION. Except as provided in Section 7 above, any dispute or controversy arising out of or relating to this Agreement or the breach hereof shall be resolved exclusively by arbitration in New York City before a 3-judge panel of the American Arbitration Association under its then-pertaining rules, and judgment upon the award rendered may be entered in any court having jurisdiction thereof. The arbitrator's decision shall be final, conclusive and binding on the parties.

13. ENTIRE AGREEMENT; AMENDMENT; GOVERNING LAW. This Agreement shall supersede any and all existing agreements, understandings and arrangements between Feiwei and Scholastic relating to the terms of her employment. This Agreement may not be amended except by a written agreement signed by both parties. This

Agreement shall be governed by and construed in accordance with the laws of the State of New York without reference to rules relating to conflicts of laws.

/s/

JEAN FEIWEL

SCHOLASTIC INC.

By: /s/

Richard Robinson
President and CEO

Dated: May 25, 2000

Dated: May 25, 2000

DESCRIPTION OF SPLIT DOLLAR LIFE INSURANCE
ARRANGEMENTS FOR THE BENEFIT OF RICHARD
ROBINSON AND HELEN BENHAM

With the approval of the Board of Directors of Scholastic Corporation (the "Company"), the Company has agreed to pay that portion of the annual premium representing the non-term life insurance portion of a split dollar life insurance policy for the benefit of Richard Robinson and Helen Benham. Mr. Robinson is the Chairman of the Board, President and Chief Executive Officer of the Company and Ms. Benham, the wife of Mr. Robinson, is a director and Corporate Vice President of the Company. During the Company's fiscal year ended May 31, 2000, such portion of the annual premium paid by the Company was \$233,874. All premiums paid by the Company in respect of the non-term portion of the split dollar life insurance policy will be repaid to the Company, without interest, not later than upon the death of the last to survive of Mr. Robinson and Ms. Benham. It is anticipated that payments of such premiums by the Company will be for a period of approximately 16 years. The Company is not responsible for payment of the portion of the premium attributable to the term life insurance portion of such policy. The above arrangements are intended to be formalized in a written agreement between the Company and the Helen Benham and M. Richard Robinson Family Trust, the owner of the policy.

SUBSIDIARIES OF THE REGISTRANT AS OF JUNE 22, 2000

SUBSIDIARIES -----	JURISDICTION OF ORGANIZATION -----
Scholastic Inc.	New York
Scholastic Book Clubs, Inc.	Missouri
Scholastic Entertainment Inc.	New York
SE Distribution Inc.	Delaware
Scholastic Book Services, Inc.	Delaware
Scholastic UK Group Ltd.	Delaware
Scholastic Ltd.	England
School Book Fairs Ltd.	England
Scholastic Book Clubs Ltd.	England
Red House Books Ltd.	England
Scholastic Educational Magazines Ltd.	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 Electronic Bookshelf, Inc.	Indiana
Quality Education Data, Inc.	Delaware
The Scholastic Store, 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 (Aust.) Pty. Ltd.	Australia
Scholastic Canada Ltd.	Canada
Scholastic Productions Canada Ltd.	Canada
Scholastic Bookfairs Canada Inc.	Canada
Scholastic Hong Kong Limited	Hong Kong
Scholastic India Private Limited	India
Scholastic Mexico S.A. de C.V.	Mexico
Scholastic New Zealand Ltd.	New Zealand
Scholastic Argentina S.A.	Argentina
Grolier Incorporated	Delaware
Grolier Enterprises Inc.	Delaware
Grolier Interactive Inc.	Delaware
Grolier Publishing Co., Inc.	Delaware
Grolier Reading Programs Inc.	Delaware
Grolier Telemarketing, Inc.	Delaware
Grolier (New York) Incorporated	Delaware
Orchard Books, Inc.	New York
Publishers World Trade Corporation	Delaware
Federated Credit Corp.	Delaware

SUBSIDIARIES OF THE REGISTRANT AS OF JUNE 22, 2000 (CONTINUED)

SUBSIDIARIES -----	JURISDICTION OF ORGANIZATION -----
Grolier International, Inc.	Delaware
Grolier Direct Marketing Pty. Ltd.	Australia
Grolier International Finance Inc. (Philippines) (60% owned)	Philippines
Grolier International Private Limited (India)	India
Grolier (Malaysia) SDN BHD (40% owned)	Malaysia
Grolier Overseas Incorporated	Delaware
Grolier Limited (Canada)	Canada
Caribe Grolier, Inc.	Puerto Rico
Grolier Limited (U.K.)	England
Grolier Credit Services (U.K.) Limited	England

CONSENT OF INDEPENDENT AUDITORS

We consent to the incorporation by reference in the Registration Statement (Form S-8 No. 33-48655, No. 33-69058 and No. 33-91090) pertaining to the Scholastic Corporation 401(K) Savings and Retirement Plan; Registration Statement (Form S-8 No. 33-46338) pertaining to the 1992 Stock Option Plan as of May 19, 1992; Registration Statement (Form S-8 No. 33-50128) pertaining to the 1992 Outside Directors' Stock Option Plan; Registration Statement (Form S-3 No. 333-17365) pertaining to \$175,000,000 of Securities; Registration Statement (Form S-8 No. 333-62297) pertaining to Scholastic Corporation 1997 Outside Directors' Stock Option Plan; Registration Statement (Form S-8 No. 333-65757) pertaining to the Scholastic Corporation 1995 Stock Option Plan; Registration Statement (Form S-8 No. 333-68181) pertaining to the Scholastic Corporation Employee Stock Purchase Plan and Registration Statement (Form S-8 No. 333-68185) pertaining to the Scholastic Corporation Management Stock Purchase Plan of our report dated July 7, 2000, with respect to the consolidated financial statements and schedule of Scholastic Corporation included in this Annual Report (Form 10-K) for the year ended May 31, 2000.

/s/ Ernst & Young LLP

New York, New York
August 24, 2000

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SCHOLASTIC CORPORATION
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