

[Blank Page]

=====
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, 1999 Commission File No. 0-19860

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

DELAWARE 13-3385513
(State or other jurisdiction of (IRS Employer Identification No.)
incorporation or organization)

555 BROADWAY, NEW YORK, NEW YORK 10012
(Address of principal executive offices) (Zip Code)

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

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

NONE

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

Table with 2 columns: TITLE OF CLASS, NAME OF EACH EXCHANGE ON WHICH REGISTERED. Row 1: Common Stock, \$.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. [X]

The aggregate market value of the Common Stock, par value \$0.01, held by non-affiliates as of August 5, 1999, was approximately \$555,225,000. As of such date, non-affiliates held no shares of the Class A Stock, par value \$0.01. 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 5, 1999 was as follows: 15,669,892 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 15, 1999.

=====

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 which creates and distributes innovative, quality educational materials for use in schools and homes, including children's books, textbooks, magazines, technology, teacher materials, television programming, videos and toys. The Company is the world leader in children's school book clubs and school book fairs and is among the largest publishers and distributors of children's books worldwide. Internationally, Scholastic operates wholly-owned companies in the United Kingdom, Canada, Australia, New Zealand, Mexico, Hong Kong, and India. Scholastic distributes most of its products directly to children and teachers in elementary and secondary schools. During its seventy-nine years of serving schools, Scholastic has developed strong name recognition associated with quality and dedication to learning. The Company develops successful children's books and then builds these brands into multimedia assets.

The Company's operations are categorized in four segments: Children's Book Publishing and Distribution; Educational Publishing; Media, Licensing and Advertising; (which together represent the Company's domestic operations); and International.

The Company's Children's Book Publishing and Distribution segment includes the publication and distribution in the United States of children's books through its school-based book clubs (including home continuity programs), school-based book fairs and trade channels. The Company believes that it operates the largest school book club program and the largest school book fair business in the United States. In fiscal 1999, Scholastic distributed in excess of 250 million children's books in the United States.

The Company's Educational Publishing segment includes the publication and distribution of K-12 textbooks, supplementary materials, classroom magazines and instructional technology for core and supplemental use in United States schools and libraries. In fiscal 1999, the United States circulation of the Company's classroom magazines was approximately 7.8 million. The Company believes it has one of the leading core curriculum reading programs - Scholastic Literacy Place(R) in the United States.

The Company's Media, Licensing and Advertising segment includes the production and the distribution by the Company's United States-based operations of entertainment products (including television programming, videos and motion pictures), Internet services and CD-ROM-based products and Scholastic-branded licensed properties, as well as advertising and promotional activities.

The International segment includes the distribution of products and services outside the United States by the Company's operations located in the United Kingdom, Canada, Australia, New Zealand, Mexico, Hong Kong and India. For the year ended May 31, 1999, approximately 80% of the Company's International revenues were derived from the sale of children's books. The Company believes that it operates the largest school book club program and the largest school book fair business in the United Kingdom, Canada, Australia and New Zealand.

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

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

(Amounts in millions)

| | 1999 | 1998 | 1997 |
|---|------------|------------|----------|
| Children's Book Publishing and Distribution | \$ 657.9 | \$ 560.9 | \$511.6 |
| Educational Publishing | 190.6 | 196.1 | 163.4 |
| Media, Licensing and Advertising | 115.6 | 105.3 | 112.2 |
| International | 190.6 | 196.1 | 179.1 |
| TOTAL | \$ 1,154.7 | \$ 1,058.4 | \$ 966.3 |

Scholastic's revenues have grown at an average annual compounded rate of approximately 9.3% from fiscal 1997 through fiscal 1999.

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

CHILDREN'S BOOK PUBLISHING AND DISTRIBUTION
(57.0% of fiscal 1999 revenues)
GENERAL

The Company's Children's Book Publishing and Distribution segment includes the publication and distribution of children's books in the United States through its school-based book clubs (including home continuity programs), school-based book fairs and the trade channel.

The Company has published books since 1948 and is one of the largest United States publishers of children's books. The Company believes it is the largest operator of school-based book clubs and book fairs in the United States and is also one of the leading sellers of children's books through 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.

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

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

BOOK CLUBS

The Company operates ten school-based book clubs: Firefly(R), serving pre-kindergarten 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, which together serve pre-K through sixth grade students. In addition, the Company creates special theme-based offers targeted to the different grade levels during the year, such as holiday offers, science offers, curriculum offers, Spanish offers, etc. The Company also operates various book club continuity programs, including All About You, Animorphs(R) Alliance, The Baby-Sitters Collector Club, Clifford's Clubhouse, Scholastic At Home Phonics Reading Program, The Magic School Bus(R), Arthur's Adventure, Star Wars Missions and Goosebumps Collectors Club. These programs are promoted primarily through book clubs and deliver the products to children at home and bill parents at home.

From fiscal 1997 through fiscal 1999, domestic book club revenues grew primarily as a result of volume increases, increases in the number of special book club offers, price increases, the expansion of book club continuity programs and the selection by children of higher priced items.

The Company founded its first book club in 1948. The Company estimates that over 80% of all elementary school teachers in the United States participate in 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 teachers are attracted because the book clubs offer easy access to a broad range of books. The Company mails promotional pieces containing order forms to teachers in the vast majority of the pre-K through eighth grade classrooms in the United States on a monthly basis throughout the school year. Participation in any month does not create an obligation to participate in any subsequent month, nor does it preclude participation in a competitor's book club.

Teachers who wish to participate in a book club distribute the order forms to their students, who may choose from generally fifty or more selections at substantial reductions from retail prices. The teacher consolidates the students' orders and payments, and mails or phones the orders to the Company, which then delivers the books 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.

The Company processes and fulfills orders for its book clubs from its primary warehouse and distribution facility in Jefferson City, Missouri. Continuity orders are fulfilled from its Des Plaines, Illinois warehouse and distribution center. Orders for the book clubs are generally shipped to customers within two to four days from receipt of the teacher's order.

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

BOOK FAIRS

The Company entered the book fair business in 1981. Since that time, the Company's book fair business has grown primarily 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. In June 1998, the Company acquired certain assets of Pages Book Fairs Inc. for \$10.5 million, including inventory, book fair cases and customer lists.

Book fairs are generally weeklong events conducted on school premises and sponsored by school librarians and/or parent-teacher organizations. Book fair events expose children to hundreds of new books and allow them the opportunity 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 that can be used to purchase books, supplies and equipment for the school.

The Company operates book fairs in all fifty states under the name Scholastic Book Fairs(R). The Company markets fairs branded as Showcase Book Fairs(TM), Exploratory Bookfairs(TM), Read Street(R) and Discovery Fairs(TM), which feature non-fiction, science, technology, arts, crafts and interactive products. The Company also offers premium fairs under the names Scholastic Literacy Festival(R) and Scholastic Books on Tour(R), which feature an expanded list of titles supported by exciting merchandise displays and book character costumes designed to create a dynamic book fair event open to the entire family.

The Company operates its book fairs in the United States on a regional basis through over 20 sales offices and over 80 warehouse locations. The marketing of book fairs is performed from the sales offices by telephone sales and field representatives. The Company's books and display cases are delivered to schools from the Company's warehouses by a fleet of leased vehicles. The Company's customer service function is performed from the sales offices, supported by field representatives. The sources of books for the Company's book fairs are original Scholastic publications, reprints licensed from other publishers for school distribution and finished books purchased from other publishers.

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 1998 sponsored a Scholastic book fair again in fiscal 1999.

TRADE

The Company distributes its original, and some licensed publications, through the trade distribution channel. Almost all of the titles distributed to the trade market are also offered in the Company's school book clubs and book fairs. In the Company's publishing program, over 2,500 titles are maintained for trade distribution, including the branded series Harry Potter(TM), Animorphs(R), Dear America(R), Goosebumps(R), The Baby-Sitters Club(R), The Magic School Bus(R) and Clifford the Big Red Dog(R). Recent licensed properties published by the Company include TeleTubbies(R) and Star Wars(R).

The Company has a trade field sales organization which focuses on selling the broad range of Scholastic books to book store accounts. The Company outsources certain services including invoicing, billing, returns processing and collection services in connection with trade distribution.

The Company's sales in the trade market have been led by Animorphs, which was first published in 1996 and as of July 1999 had forty-four titles and thirty-one million copies in print; the Goosebumps series, with 169 titles and 216 million copies in print; and The Baby-Sitters Club series, with 340 titles and 173 million copies in print. Two other Scholastic-developed properties that also

generate significant sales are The Magic School Bus series with ninety-one titles and forty-three million copies in print and the new Dear America hardcover series with twenty titles and six million copies in print. The Scholastic Children's Dictionary(R), published in 1996 and with approximately 1.9 million copies in print, has greatly enhanced the Company's reference line.

During fiscal 1999, several of Scholastic's titles were included on the bestseller lists of USA Today and The New York Times, including books from the Harry Potter, Animorphs, and Star Wars series.

Scholastic's export department oversees the licensing of foreign-language rights in eligible Scholastic titles to other publishing companies around the world and the sales of books to countries where the Company does not operate. Scholastic titles have been licensed in over twenty-five languages and the Company's books are sold in most countries in the world.

EDUCATIONAL PUBLISHING

(16.5% of fiscal 1999 revenues)

GENERAL

The Company's Educational Publishing segment includes the publication and distribution of K-12 textbooks, supplemental materials, classroom magazines and instructional technology for core and supplemental use in United States 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, early childhood products and core curriculum materials in the 1990's and in 1996, strengthened its Spanish language offerings through the acquisition of Lectorum, the largest Spanish language book distributor to schools and libraries in the United States.

CLASSROOM MAGAZINES

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

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

The Company's classroom magazine circulation in the United States in each of fiscal years 1999 and 1998 was approximately 7.8 million. Approximately two-thirds of the circulation is in grades K-6, with the balance in grades seven through twelve. In fiscal 1999, teachers in approximately 60% of the elementary schools and 70% of the high schools in the United States used the Company's classroom magazines.

The various classroom magazines are distributed on a weekly, bi-weekly and monthly basis during the school year. The majority of the cost of the magazines is paid for by the schools and the remainder is paid by the students. Circulation revenue accounted for substantially all of the Company's classroom magazine revenues in fiscal 1999.

CORE, SUPPLEMENTAL, EARLY CHILDHOOD AND PROFESSIONAL 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 K-8, to meet the spectrum of schools' needs in these disciplines. As described below, the Company's offerings range from core textbooks to supplemental materials, including print products (broad selections of paperback books and specialized products such as phonics readers), to technology-based products that help teach reading (Wiggleworks), help manage school reading incentive programs (Scholastic Reading Counts!) and help fourth through eighth grade students who are reading below grade level (Read 180).

The Company's largest programs are Scholastic Literacy Place, its K-5 market core curriculum reading program, and Scholastic Solares(TM), its Spanish elementary reading program. During fiscal 1999, Scholastic Literacy Place was cited as the second most purchased reading program in the

United States by Educational Marketer magazine. Scholastic Literacy Place was also adopted by the Department of Defense Education Activity for use in 119 schools around the world. The Company is in the process of updating these programs for sales in open territory and adoption states, including the upcoming Texas adoption.

The professional publishing division publishes professional books designed for and generally purchased by teachers. The Company also distributes a successful line of supplemental phonics products. The Company is publishing additional books and Spanish phonics materials to meet growing demand.

MEDIA, LICENSING AND ADVERTISING (10.0% of fiscal 1999 revenues)

GENERAL

The Company's Media, Licensing and Advertising segment includes the production and the distribution of entertainment products (including television programming, videos and motion pictures), Internet services and CD-ROM-based products and Scholastic-branded licensed properties, as well as advertising and promotional activities.

TV/MOVIE PRODUCTIONS AND LICENSING

Scholastic Entertainment Inc. ("SEI"), formerly Scholastic Productions, Inc., a wholly-owned subsidiary of the Company, extends the Company's franchises by creating and managing global brands based on Scholastic's strong publishing properties. SEI's multimedia programming also provides support for branding and consumer products activities worldwide.

FILMED ENTERTAINMENT

SEI has built a media library of over 150 half-hour and six one-hour television episodes including:

Scholastic's the Magic School Bus(r)

The popular animated children's television series, Scholastic's The Magic School Bus(R), first aired for four seasons on PBS through the spring of 1998. In the fall of 1998, Scholastic's The Magic School Bus moved from PBS and began airing on Fox Kid's Network ("FKN") where it continues to receive high ratings. A total of fifty-two half-hour episodes of the show have been produced. The show has won numerous awards, including an Emmy for Lily Tomlin, and was the most popular series for school-aged children on PBS. In addition, the series has been licensed for television in over forty international territories. The series is also available worldwide on home video.

Goosebumps(r)

Goosebumps, which debuted in 1995 on FKN, was one of the top-rated children's series on television with a total of sixty-two half-hour episodes and six one-hour specials. Additionally, Goosebumps has been licensed in over 100 countries worldwide and is currently airing in many major international territories. The series has been especially popular in the United Kingdom where it has been the number one rated children's series. Goosebumps has been released on video in several major international territories.

Animorphs(r)

SEI has produced twenty half-hour live action episodes of Animorphs, based on Scholastic's bestselling book series, which were first aired on Nickelodeon in fiscal 1999. Animorphs also aired in Canada on both YTV (a basic cable channel) and the Global Television Network (broadcast market). Nickelodeon is distributing the series in television markets outside of North America. SEI is producing six additional half-hour episodes of Animorphs for Nickelodeon, which are scheduled to be aired in the fall of 1999.

Dear America(TM)

During fiscal 1999, SEI produced six half-hour episodes for Home Box Office ("HBO") based on Scholastic's popular and critically acclaimed book series, Dear America. HBO has contracted for six additional specials to be produced for airing in fiscal 2000.

Other Development

Another major Scholastic franchise in development is an animated television series based on the beloved book series, Scholastic's Clifford the Big Red Dog(TM). SEI also has other original children's and family oriented projects in various stages of development.

LICENSING

SEI develops branding campaigns with high profile licensing and promotional programs, primarily for brands produced in other media. In June 1997, SEI was awarded the LIMA (Licensing Industry Merchandiser's Association) award for "Licensing Agency of the Year." Examples of SEI's licensing and promotional activities include:

Scholastic's The Magic School Bus

- o The award-winning series of CD-ROMs, co-produced with Microsoft. All seven of the Scholastic's The Magic School Bus CD-ROMs have been in the all-time top twenty bestselling educational titles for children.
- o Scholastic's Traveling Magic School Bus is an actual thirty-five foot long yellow school bus that travels throughout North America. Over 1.5 million fans have boarded the bus at schools, libraries, book fairs, events and book stores since its launch in 1995.

- o Consumer promotion partnerships with Howard Johnson, Kids Cuisine and Colgate Palmolive.

- o A live stage show tours the United States and Canada along with an exhibit featured at children's museums.

Goosebumps

- o The 1997 LIMA award "License of the Year" for Goosebumps.

- o Two CD-ROMs, co-produced with Dreamworks SKG, the first of which reached number one on the children's best seller list.

- o The 1996 Reggie Award-winning Goosebumps Halloween Promotion with Pepsi, Frito-Lay, Hershey, Taco Bell and Target retail stores.

Animorphs

- o A targeted licensing and marketing campaign for Animorphs developed in conjunction with the television series launch in fall 1998.

- o Licensing partnerships with fifteen industry leaders, including Hallmark, Antioch, Giant and Hasbro Toys.

- o A multiyear consumer promotion agreement with Tricon (corporate parent of Taco Bell, KFC and Pizza Hut) for a consumer promotion which commenced in the fourth calendar quarter of 1998.

SPECIAL MARKETS

In addition, SEI creates, manufactures and distributes high-quality consumer products primarily based on Scholastic's literary properties. In fiscal 1997, the first product line of upscale plush toys, Sidekicks(TM), was launched with items based on Clifford the Big Red Dog and Clifford the Small Red Puppy(R). During fiscal 1998, additional products were introduced to the marketplace based on The Magic School Bus character, Liz. The products are available through independent toy/gift stores, specialty chains, department stores, mail order catalogs and bookstores, as well as through Scholastic's proprietary channels (i.e. book clubs and book fairs). A second product line of stationery items, Paper Scissors Rock(TM), was launched in Spring 1999.

WESTON WOODS

The Company produces and markets videos to the school market through Weston Woods, a producer of videos based on high quality children's books, which was acquired in 1996.

NEW MEDIA

The Company sells consumer software through its book clubs and book fairs, and through three classroom software clubs modeled on its classroom book clubs, reaching children from kindergarten to eighth grade. 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 initiated sales of its internally developed CD-ROM titles, including the award-winning I SPY CD-ROM, in the retail channel through a third party distribution arrangement.

In fiscal 1994, the Company launched the Scholastic Network, the first online service developed especially for educators and students. By offering teachers supporting material and compelling in-class experiences for the kindergarten through eighth grade market, it became the largest teacher-oriented subscription service on the Internet. In addition, the Company has operated its home page on the World Wide Web since 1994. This site, Scholastic.com, provides an overview of the Company's activities, resource libraries for educators and special programming tied to the Scholastic Network's content.

In fiscal 2000, the Company plans to significantly expand the Scholastic Network and change the service from paid to free to increase teacher utilization. In the later part of fiscal 2000, the Company intends to add e-commerce capabilities to www.scholastic.com in two ways. First, the Company expects to enable teachers to order book club and software club selections, as well as other Scholastic paperbacks and professional resources, through the Internet; and second, the Company expects to provide a direct-to-home service for parents to buy materials to support their child's learning. Shortly thereafter, the Company expects to offer a home learning subscription service which would be recommended by teachers, purchased by parents and used by students.

Scholastic Network and Scholastic.com have generated a loss since inception. The Company anticipates that the loss will increase in fiscal 2000 as a result of this planned expansion.

ADVERTISING

The Company publishes three magazines directed at teachers and education professionals: Instructor, Scholastic Early Childhood Today(TM) and Coach and Athletic Director(TM). In fiscal 1999, advertising revenue represented the majority of these magazines' revenue. Total circulation for these magazines in fiscal 1999 was approximately 300,000. The magazines are distributed throughout the

academic year. Subscriptions are solicited by direct mail and are cross-marketed to teachers through the book clubs. The Company also publishes Scholastic Parent and Child(R) magazine, which is directed at parents and distributed through schools and day care programs. The circulation for Scholastic Parent and Child is approximately 1.3 million. The magazines carry outside advertising, advertising for the Company's other products and advertising for clients that sponsor customized programs.

The Company's Scholastic Marketing Partners group develops and distributes customized programs sponsored by corporations.

INTERNATIONAL
(16.5% of fiscal 1999 revenues)
GENERAL

The International segment includes the distribution of products and services outside the United States by the Company's operations in the United Kingdom, Canada, Australia, New Zealand, Mexico, Hong Kong and India. The businesses in the United Kingdom, Canada, Australia and New Zealand generally mirror the Company's Children's Book Publishing and Distribution and Educational Publishing segments in the United States and include publishing and/or distributing children's books, magazines, school text materials and educational software. The Company's businesses in Mexico, Hong Kong and India principally distribute through schools books published by Scholastic and other publishers. Products from the United States appropriate to each specific market are distributed where rights are available.

United Kingdom

Scholastic UK, founded in 1964, is Scholastic's largest international subsidiary. It is the United Kingdom's largest book club and book fair operator, based in part on the Company's acquisition of Red House Books Ltd. in 1997 and of School Book Fairs, Ltd. in 1996. Scholastic UK also publishes five monthly magazines for teachers and a substantial list of children's and educational books. Scholastic UK's trade books appear frequently in the UK children's bestseller lists.

Canada

Scholastic Canada, founded in 1957, distributes both English and French language products used in more than 80% of Canadian schools. It also is Canada's leading operator of book clubs and book fairs and publishes original works for distribution in Canada.

Australia

Scholastic Australia, founded in 1968, is the leading publisher and distributor of children's educational materials in Australia. Its book clubs and book fairs reach 90% of the country's primary schools. Local imprints include Omnibus Books and Margaret Hamilton Books.

New Zealand

Scholastic New Zealand, founded in 1964, is the leading book distributor to schools and the largest children's book publisher in New Zealand. It publishes about thirty new titles each year and has won annual picture book and junior fiction awards, including the Aim Children's Book Awards and the New Zealand Library and Information Association Awards.

Emerging Countries

The Company has operations in emerging marketplaces within Mexico, Hong Kong and India. The Mexican and Indian businesses distribute books in both English and local languages, principally through school book fairs and/or school book clubs.

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, 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 club and 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. See Supplementary Financial Information in Item 8.

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 and generally have peaked in September or October, and have been at the lowest point in May.

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 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 paperback 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

As of May 31, 1999, Scholastic employed approximately 5,100 persons in full-time jobs and 470 in hourly or part-time jobs in the United States and approximately 1,970 persons in its international subsidiaries. The number of part-time employees fluctuates during the year because the Company's business is closely correlated with the school year. The Company believes that its relations with employees are good.

COPYRIGHT AND TRADEMARKS

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 US 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 its 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 Baby-Sitters Club, The Magic School Bus and Animorphs.

All of the Company's publications, including books, magazines and software, are subject to copyright protection. The Company consistently copyrights its magazines, books and software in the name of the Company. 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 434,000 square feet of space for executive offices and certain of its operating divisions. The Company intends to expand 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 1.6 million square feet of office and warehouse space in over eighty facilities in the United States for Scholastic Book Fairs.

Additionally, the Company owns or leases approximately 800,000 square feet of office and warehouse space in twenty facilities in Canada, the United Kingdom, Australia, New Zealand and elsewhere around the world for its international businesses.

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 the Notes to Consolidated Financial Statements. The Company considers its properties adequate for its present needs.

ITEM 3 / LEGAL PROCEEDINGS

As previously reported, three purported class action complaints were filed in the United States District Court 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 Securities Litigation, 97 Civ. 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. In an order dated December 14, 1998, the United States District Court for the Southern District of New York granted the Company's motion to dismiss the Complaint. In dismissing the Complaint, the Court held that the plaintiffs had failed to state a claim upon which relief could be granted and granted plaintiffs leave to amend and refile the Complaint. Pursuant to that order, plaintiffs filed a second Consolidated Amended Class Action Complaint, on or about February 16, 1999, alleging substantially similar claims against the Company and one of its officers. 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), is 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 a 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. The second action, captioned Parachute Press, Inc. v. Scholastic Inc., Scholastic Productions, Inc. and Scholastic Entertainment Inc. (Index No. 600507/99), 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. 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 pursue its claims against Parachute and the other named defendants and to vigorously defend against the lawsuit and appeal. The Company does not believe that this dispute will have a material adverse effect on its financial condition.

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

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 a 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.

(Years ended May 31,)

| | 1999 | | 1998 | |
|----------------|--------|--------|----------|---------|
| | HIGH | LOW | HIGH | LOW |
| First Quarter | 45 3/4 | 35 3/4 | 36 3/8 | 29 |
| Second Quarter | 52 3/4 | 35 1/2 | 45 19/32 | 33 7/8 |
| Third Quarter | 59 1/2 | 46 5/8 | 42 1/2 | 28 7/8 |
| Fourth Quarter | 56 1/4 | 44 | 43 7/8 | 35 9/16 |
| Year | 59 1/2 | 35 1/2 | 45 19/32 | 28 7/8 |

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 Common Stock and Class A Stock. In addition, certain of the Company's credit facilities restrict the payment of dividends. See Note 3 of the Notes to Consolidated Financial Statements.

The number of holders of record of Class A and Common Stock as of August 5, 1999 were three and approximately 5,000, respectively.

ITEM 6 / SELECTED FINANCIAL DATA

For fiscal years ended May 31,

(Amounts in millions, except per share data)

| | 1999 | 1998 | 1997 | 1996 | 1995 |
|--|------------|------------|----------|----------|----------|
| STATEMENT OF INCOME DATA: | | | | | |
| Total revenues | \$ 1,154.7 | \$ 1,058.4 | \$ 966.3 | \$ 928.6 | \$ 749.9 |
| Cost of goods sold | 561.1 | 536.8 | 530.7 | 466.0 | 356.0 |
| Selling, general and administrative expenses | 493.3 | 440.3 | 399.6 | 367.4 | 316.2 |
| Other operating costs | | | | | |
| Goodwill and trademark amortization and depreciation | 22.4 | 21.7 | 18.3 | 13.1 | 10.0 |
| Impairment of assets | -- | 11.4 | -- | 24.3 | -- |
| Operating income | 77.9 | 48.2 | 17.7 | 57.8 | 67.7 |
| Gain on sale of the SOHO Group | -- | 10.0 | -- | -- | -- |
| Interest expense, net | (19.0) | (20.1) | (16.7) | (11.2) | (5.4) |
| Net income | 36.8 | 23.6 | 0.4 | 31.9 | 38.6 |
| Net income per share-basic | \$ 2.25 | \$ 1.46 | \$ 0.02 | \$ 2.02 | \$ 2.48 |
| Net income per share- diluted | \$ 2.20 | \$ 1.45 | \$ 0.02 | \$ 1.97 | \$ 2.38 |
| Weighted average shares outstanding-basic | 16.4 | 16.2 | 16.0 | 15.8 | 15.6 |
| Weighted average shares outstanding-diluted | 16.7 | 16.4 | 16.3 | 16.2 | 16.2 |

BALANCE SHEET DATA (END OF YEAR):

| | | | | | |
|----------------------|----------|----------|----------|----------|----------|
| Working capital | \$ 222.4 | \$ 201.0 | \$ 215.7 | \$ 177.1 | \$ 136.8 |
| Total assets | 842.3 | 763.6 | 784.4 | 673.2 | 505.9 |
| Long-term debt | 248.0 | 243.5 | 287.9 | 186.8 | 91.5 |
| Stockholders' equity | 361.4 | 318.1 | 297.5 | 288.6 | 250.2 |

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 together comprise the Company's domestic operations); and International. Such segment classification reflects the nature of the Company's products and services consistent with how senior management assesses operating performance and allocates resources. Prior year comparisons have been restated to conform with current year segment presentation. The following discussion and analysis of the Company's financial position should be read in conjunction with the Company's Consolidated Financial Statements and related Notes and Selected Financial Data included in this report.

OVERVIEW

During the three-year period ended May 31, 1999, the Company reported steady revenue growth with significant improvement in net income, operating margins and earnings per share. This improved performance reflects the Company's focused development of its core businesses, careful management of capital expenditures and cost controls as part of a turnaround plan established following the breakeven fiscal 1997.

During fiscal 2000, the Company plans to maintain its overall strategic objective of strengthening and developing its core businesses through planned investments while continuing to improve overall profitability through growth and cost containment. 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.

SCHOLASTIC
RESULTS OF OPERATIONS
For fiscal years ended May 31,
(Amounts in millions, except per share data)

| | 1999 | | 1998 | | 1997 | |
|---|---------|-------|----------|-------|-------|-------|
| | \$ | % (1) | \$ | % (1) | \$ | % (1) |
| Revenue: | | | | | | |
| Children's Book Publishing and Distribution | 657.9 | 57.0 | 560.9 | 53.0 | 511.6 | 53.0 |
| Educational Publishing | 190.6 | 16.5 | 196.1 | 18.5 | 163.4 | 16.9 |
| Media, Licensing and Advertising | 115.6 | 10.0 | 105.3 | 10.0 | 112.2 | 11.6 |
| International | 190.6 | 16.5 | 196.1 | 18.5 | 179.1 | 18.5 |
| Total revenue | 1,154.7 | 100.0 | 1,058.4 | 100.0 | 966.3 | 100.0 |
| Cost of goods sold | 561.1 | 48.6 | 536.8 | 50.7 | 530.7 | 54.9 |
| Gross profit | 593.6 | 51.4 | 521.6 | 49.3 | 435.6 | 45.1 |
| Selling, general and administrative costs | 493.3 | 42.7 | 440.3 | 41.6 | 399.6 | 41.4 |
| Operating income | 77.9 | 6.8 | 48.2 (2) | 4.6 | 17.7 | 1.8 |
| Income before taxes | 58.9 | 5.1 | 38.1 (3) | 3.6 | 1.0 | 0.1 |
| Net income | 36.8 | 3.2 | 23.6 | 2.2 | 0.4 | 0.0 |
| Earnings per share: | | | | | | |
| Basic | 2.25 | | 1.46 | | 0.02 | |
| Diluted | 2.20 | | 1.45 | | 0.02 | |

(1) Represents percentage of revenue

(2) Includes a non-cash charge of \$11.4 million related to the impairment of certain assets including unamortized prepublication costs and inventory

(3) Includes a gain of approximately \$10.0 million resulting from the sale of the SOHO Group

RESULTS OF OPERATIONS - CONSOLIDATED

Revenue in fiscal 1999 continued to grow, increasing approximately \$96.3 million, or 9%, from fiscal 1998. Revenue growth in fiscal 1998 was approximately \$92.1 million, or 10%, when compared to fiscal 1997. This steady increase in revenues was driven primarily by the Company's Children's Book Publishing and Distribution segment, which accounted for 57% of the Company's revenues in fiscal 1999, and 53% in both fiscal 1998 and 1997.

Gross profit margin improved to 51% for fiscal 1999, up two percentage points from fiscal 1998, and up six percentage points from fiscal 1997. 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 approximately \$30.0 million in both fiscal 1999 and 1998 reflecting improved operating margins of 6.8% and 4.6%, respectively, as compared to 1.8% in fiscal 1997. In the third quarter of fiscal 1998, the Company incurred a non-cash charge of \$11.4 million related to the impairment of certain assets including unamortized prepublication costs and inventory. Excluding this non-cash charge, fiscal 1998 had an operating margin of 5.6% of sales. Savings generated through cost containment and improved manufacturing costs were the primary cause of the improved margins. Selling, general and administrative costs increased as a percentage of sales to 42.7% in fiscal 1999 from 41.6% in fiscal 1998 due primarily to increased information technology costs which were in part related to the Company's Year 2000 initiatives. In fiscal 1998, selling, general and administrative costs as a percentage of revenues were flat to the prior fiscal year.

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

Net interest expense decreased slightly to \$19.0 million in fiscal 1999 from \$20.1 million in fiscal 1998 reflecting lower average debt levels and the capitalization of interest related to the construction of additional office space in New York during fiscal 1999. Fiscal 1998 interest expense was \$3.4 million greater than in fiscal 1997 (\$16.7 million), reflecting higher average debt levels in fiscal 1998 partially due to the January 1997 acquisition of Red House Books Ltd. and a higher weighted-average interest rate due to the issuance in December 1996 of the Company's 7% Notes due 2003.

The Company's effective tax rates were 37.5%, 38.0% and 64.6% of earnings before taxes, for fiscal years 1999, 1998 and 1997, respectively. The decreases from fiscal 1997 reflect the impact of lower relative state and local tax burdens, which are computed on an unconsolidated basis.

Net income was \$36.8 million in fiscal 1999, \$23.6 million in fiscal 1998 and \$0.4 million in fiscal 1997. The basic and diluted net income per Class A and Common Share were \$2.25 and \$2.20, respectively, in fiscal 1999, \$1.46 and \$1.45, respectively, in fiscal 1998 and \$0.02 for both basic and diluted net income per share in fiscal 1997.

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 in the United States of children's books through its school-based book clubs (including home continuity programs), book fairs and trade channels.

(Amounts in millions)

| | 1999 | 1998 | 1997 |
|------------------|----------|----------|----------|
| Revenue | \$ 657.9 | \$ 560.9 | \$ 511.6 |
| Operating profit | 109.3 | 84.6 | 65.0 |
| Operating margin | 16.6% | 15.1% | 12.7% |

Children's Book Publishing and Distribution revenues accounted for 57% of the Company's revenues in fiscal 1999, and 53% in fiscal 1998 and fiscal 1997. These revenues increased 17% to \$657.9 million in fiscal 1999 from \$560.9 million in fiscal 1998. Book club revenues, inclusive of continuity programs, accounted for slightly more than half of Children's Book Publishing and Distribution sales in fiscal 1999, down slightly from the prior fiscal year. Revenues from the club and continuity programs increased approximately 14% in fiscal 1999 and approximately 15% in fiscal 1998 reflecting growth in order volume as well as increased revenue per order. Revenues from book fairs accounted for approximately 30% of Children's Book Publishing and Distribution sales in fiscal 1999, up slightly from fiscal years 1998 and 1997. Sales growth for book fairs of approximately 20% in fiscal 1999 and approximately 15% in fiscal 1998 was due in part to an increased number of fairs and in part an increase in revenue per fair from fairs offering a broader product selection. In fiscal 1999, growth in the number of

fairs is primarily due to the impact of the June 1998 acquisition of the assets of Pages Book Fairs Inc. The Company's trade distribution channel accounted for approximately 16% of Children's Book Publishing sales in fiscal 1999, 15% in fiscal 1998 and 19% in fiscal 1997. Net trade sales increased by approximately 25% in fiscal 1999 due to the continued success of Scholastic branded properties such as Harry Potter, Animorphs, Dear America, I Spy, Clifford the Big Red Dog and Scholastic Reference books. Trade sales also benefited from titles based on licensed properties such as Star Wars and TeleTubbies. In fiscal 1998, net Trade sales decreased by more than 14% due to the continued decline in the sales of the Goosebumps series. Trade sales of properties other than Goosebumps increased approximately 24% in fiscal 1998 when compared to fiscal 1997.

Operating income for Children's Book Publishing and Distribution increased \$44.3 million during the three fiscal years ended May 31, 1999 to \$109.3 million or 16.6% of sales. Operating income was \$84.6 million or 15.1% of sales and \$65.0 million or 12.7% of sales for fiscal 1998 and 1997, respectively. Operating margins improved largely as a result of the benefit of cost reductions in manufacturing and fulfillment activities and changes in product mix in both fiscal 1999 and fiscal 1998. In fiscal 1998, the segment also benefited from a lower return rate in the Trade channel. Selling, general and administrative costs as a percentage of revenue were approximately equal to the prior year at 34%. During fiscal 1998, marketing and promotion costs for the Children's Book Publishing and Distribution segment increased as a result of increased volume in the book clubs and book fairs.

EDUCATIONAL PUBLISHING

The Company's Educational Publishing segment includes the publication and distribution of K-12 textbooks, supplemental materials (including professional books), classroom magazines and instructional technology for core and supplemental use in United States schools and libraries. In fiscal 1999, the United States circulation of the Company's classroom magazines was approximately 7.8 million.

(Amounts in millions)

| | 1999 | 1998 | 1997 |
|-------------------------|----------|----------|----------|
| Revenue | \$ 190.6 | \$ 196.1 | \$ 163.4 |
| Operating profit/(loss) | 2.3 | 0.5 | (21.1) |
| Operating margin | 1.2% | 0.3% | * |

* not meaningful

Educational Publishing revenues accounted for approximately 17% of the Company's revenues in fiscal 1999, approximately 19% in fiscal 1998 and approximately 17% in fiscal 1997. In fiscal 1999, Educational Publishing revenues declined approximately 3% to \$190.6 million from \$196.1 million in fiscal 1998 and revenues related to sales of core and supplemental instructional materials to schools decreased to 75% of Educational Publishing revenues from 77% in fiscal 1998. These decreases were primarily due to the impact of the anticipated wind-down of the California adoption of the Company's reading program Scholastic Literacy Place, partially offset by an increase in sales of the Company's supplemental materials and classroom magazines. In fiscal 1998, Educational Publishing revenues increased approximately 20% from \$163.4 million in fiscal 1997. Revenues related to sales of core and supplemental instructional materials to schools increased 30% over fiscal 1997 primarily due to the impact of strong sales of Scholastic Literacy Place in the first year of the California reading adoption.

Educational Publishing operating income increased \$1.8 million from \$0.5 million in fiscal 1998, to \$2.3 million in fiscal 1999. Excluding the effect of the \$8.3 million portion of the non-cash charge related to the impairment of certain Educational Publishing assets incurred in the third quarter of fiscal 1998, operating income decreased \$6.5 million from \$8.8 million in fiscal 1998 (4.5% of sales) to \$2.3 million in fiscal 1999 (1.2% of sales). Gross margins remained relatively constant as a percentage of revenue to the prior year at approximately 52%. In fiscal 1999, promotion and other selling and general administrative costs associated with the launch of the Company's new Scholastic Reading Counts! program were primarily responsible for the decline in margins. Excluding the effect of the non-cash charge, fiscal 1998 operating income of \$8.8 million (4.5% of sales) represented an improvement of \$29.8 million from an operating loss of \$21.1 million in fiscal 1997. During fiscal 1998, the segment benefited from the high margin of incremental Scholastic Literacy Place sales as well as the effect of planned cost reductions within the core and supplemental instructional materials groups.

MEDIA, LICENSING AND ADVERTISING

The Company's Media, Licensing and Advertising segment includes the production and the distribution by the Company's United States-based operations of entertainment products (including television programming, videos and motion pictures), Internet services and CD-ROM-based products and Scholastic-branded licensed properties, as well as advertising and promotional activities.

(Amounts in millions)

| | 1999 | 1998 | 1997 |
|-------------------------|----------|----------|----------|
| Revenue | \$ 115.6 | \$ 105.3 | \$ 112.2 |
| Operating profit/(loss) | 0.0 | (9.5) | (6.5) |
| Operating margin | 0.0% | * | * |

* not meaningful

Media, Licensing and Advertising revenues accounted for approximately 10% of the Company's revenues in both fiscal 1999 and 1998 and approximately 12.0% in fiscal 1997. In fiscal 1999, revenues increased approximately 10% to \$115.6 million from \$105.3 million in fiscal 1998. Increased software and multimedia product sales and merchandise licensing sales were partially offset by the absence of revenues of \$11.8 million due to the sale of the Company's SOHO Group, effective January 1, 1998. In fiscal 1998, revenues reflected a decline of 6% from the fiscal 1997 level of \$112.2 million as increased software and multimedia product sales of \$10.4 million were more than offset by the impact of decreased licensing revenue related to Goosebumps products and the absence of SOHO Group revenues for five months of fiscal 1998.

Operating income for the Media, Licensing and Advertising segment reached breakeven in fiscal 1999 from an operating loss of \$9.5 million in fiscal 1998. This includes the effect of the \$3.1 million of the non-cash charge related to the impairment of certain assets incurred in the third quarter of fiscal 1998. The improvement was largely the result of strong software product sales in the club and fair selling channels combined with improved product cost efficiencies. Media, Licensing and Advertising had an operating loss of approximately \$6.5 million in both fiscal 1998 (exclusive of the \$3.1 million non-cash charge) and fiscal 1997. The adverse impact of the decline of the high margin Goosebumps licensing revenue in fiscal 1998 was offset by stronger CD-ROM sales.

INTERNATIONAL

The International segment consists of the distribution of products and services outside the United States by the Company's operations located in the United Kingdom, Canada, Australia, New Zealand, Mexico, Hong Kong and India. For the year ended May 31, 1999, approximately 80% of the Company's International revenues were derived from the sale of children's books.

(Amounts in millions)

| | 1999 | 1998 | 1997 |
|------------------|----------|----------|----------|
| Revenue | \$ 190.6 | \$ 196.1 | \$ 179.1 |
| Operating profit | 4.9 | 9.7 | 11.6 |
| Operating margin | 2.6% | 5.0% | 6.5% |

International sales accounted for approximately 17% of the Company's revenues in fiscal 1999 and approximately 19% in both fiscal 1998 and fiscal 1997. International revenues decreased approximately 3% from \$196.1 million in fiscal 1998 to \$190.6 million in fiscal 1999. This reflects a decline in the United Kingdom sales, principally in the book club, trade and book fair channels. Revenues from the Company's Canadian operation increased, despite disruptions from a move to a new warehouse, with growth in the supplementary text, book clubs and book fairs channels. In fiscal 1998, International revenues increased approximately 9% from \$179.1 million in fiscal 1997, principally attributable to an increase in revenues from the Company's United Kingdom operation in fiscal 1998, which improved approximately 33%, reflecting the full year benefit of the January 1997 acquisition of Red House Books Ltd. along with continued strength in the trade distribution channel. 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 US dollar.

International operating income decreased \$4.8 million to \$4.9 million (2.6% of sales) in fiscal 1999 from \$9.7 million in fiscal 1998 (5.0% of sales). 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 US dollar denominated purchases. The Canadian subsidiary incurred additional costs related to the opening of its new distribution facility. Additionally, the Canadian and Australian subsidiaries incurred increased promotion costs primarily as a result of higher book club kit and bonus point costs. During fiscal 1998, increased spending by the United Kingdom subsidiary for customer service to support the acquisition of Red House Books Ltd. was the primary cause of the decrease in operating income.

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, 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. See Supplementary Financial Information in Item 8. 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 and have generally peaked in September or October, and have been at the lowest point in May.

LIQUIDITY AND CAPITAL RESOURCES

The Company's cash and cash equivalents remained virtually unchanged for fiscal years 1999, 1998 and 1997.

Cash outflows for investing activities were \$136.8 million for fiscal 1999, primarily related to royalty advances, business and trademark acquisition-related payments, capital expenditures and prepublication and production cost expenditures.

Payments for royalty advances totaled \$27.8 million for fiscal 1999. Business and trademark acquisition-related payments were \$14.9 million for the year, including the June 1998 acquisition of certain book fair assets of Pages Book Fairs, Inc. and the January 1999 acquisition of certain assets of Quality Education Data. The Company's capital expenditures totaled \$29.6 million in fiscal 1999. Capital expenditures, including capitalized interest, increased \$9.3 million to from fiscal 1998 primarily due to commencement of the expansion of the Company's corporate headquarters. Prepublication cost expenditures totaled \$46.8 million, increasing \$21.4 million from fiscal 1998, largely due to higher investments in core publishing and technology-based products, primarily in the planned revision to Scholastic Literacy Place and the development of Read 180. The Company expects significant increases in its capital expenditures and prepublication spending in fiscal 2000 over fiscal 1999. The expected increase in capital expenditures is primarily due to the expansion of the Company's headquarters and Information Systems and Internet development. The expected increase in prepublication costs is primarily due to costs associated with completion of the Scholastic Literacy Place revision.

The Company believes its existing cash position, combined with funds generated from operations and increased funds available under the amended Loan Agreement and the Revolver will be sufficient to finance its ongoing working capital requirements 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 \$205.0 million (with a right, in certain circumstances, to increase to \$235.0 million), including the issuance of up to \$10.0 million in letters of credit. The Company uses these facilities to fund seasonal cash flow needs and other working capital requirements. At May 31, 1999, the Company had \$10.0 million in borrowings outstanding under these facilities at a weighted average interest rate of 5.3075%.

The foregoing information reflects amendments effected on August 11, 1999 to one of the credit facilities which extended the expiration date of the facility to August 11, 2004 and expanded the facility from \$135.0 million to \$170.0 million (with a right, in certain circumstances, to increase to \$200.0 million). The Company anticipates amending and restating the Revolver in the second quarter of fiscal 2000 to increase the amount available thereunder to \$40.0 million and extend its expiration to 2004. The Company does not anticipate any difficulty in negotiating satisfactory credit arrangements.

In addition, unsecured lines of credit available to the Company's United Kingdom, Canadian and Australian operations totaled \$37.9 million at May 31, 1999. These lines are used primarily to fund local working capital needs. At May 31, 1999, \$18.0 million in borrowings were outstanding under these lines at a weighted average interest rate of 7.15%.

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, the acquisition of a leading US educational information company, certain assets of Quality Education Data.

YEAR 2000 READINESS DISCLOSURE

As previously reported, management has initiated an enterprise-wide program to prepare the Company's computer systems and applications for the Year 2000, as well as to identify and address any other Year 2000 operational issues which may affect the Company. Progress reports on the Company's Year 2000 program are presented regularly to the Company's Board of Directors and senior management.

The Company's Year 2000 program, which was commenced in July 1997 and is administered by internal staff, assisted by outside consultants, consists of the following three components relating to the Company's operations: (1) information technology ("IT") computer

systems and applications which may be impacted by the Year 2000 problem and the actions related thereto, (ii) non-IT systems and equipment which include embedded technology which may be impacted by the Year 2000 problem and the actions related thereto and (iii) third party suppliers and customers with which the Company has material relationships and which could adversely affect the Company if such parties fail to be Year 2000 compliant and the actions related thereto. The general phases common to all three components of the Company's Year 2000 program are: (1) Assessment (the identification, assessment and prioritization of the Year 2000 issues facing the Company in each of the above areas and the actions to be taken in respect of such issues or items); (2) Remediation (implementation of the specific actions determined upon assessment, including repair, modification or replacement of items that are determined not to be Year 2000 compliant); (3) Testing (testing of the new or modified information systems, other systems and equipment to verify Year 2000 readiness); (4) Contingency Planning (designing appropriate contingency and business continuation plans for each Company business unit and location); and (5) Implementation (actual operation of such systems and equipment and, if necessary, the actual implementation of any contingency plans in the event Year 2000 problems occur, notwithstanding the Company's remediation program).

The progress to date of the three components of the Company's Year 2000 program for principal systems, applications or issues affected by the Year 2000 is as follows:

IT Systems and Applications The principal IT systems and applications of the Company affected by Year 2000 issues include: order entry, purchasing, distribution and financial reporting. Issues related to vendor supplied software include financial reporting and certain infrastructure and operating system software. The Company has substantially completed the Assessment, Remediation and Testing phases with respect to its principal IT systems and applications. In addition, the Company anticipates that the Contingency Planning phase should be substantially completed by the end of August 1999. A test plan is in place. Excluding normal system upgrades, the Company estimates that total costs for conversion and testing of new or modified IT systems and applications will aggregate approximately \$11.8 million through fiscal 2000, of which \$8.0 million has been incurred through May 31, 1999.

Non-IT Systems and Equipment

The principal non-IT systems and equipment of the Company incorporating embedded technology affected by Year 2000 issues include: security systems, phone systems, business machines, computers and distribution systems. The Company has substantially completed the Assessment and the Remediation phases of its principal non-IT software and applications related to these principal systems. The Testing, Contingency Planning and Implementation phases should be substantially completed by the end of August 1999. In addition to the foregoing, the Company expects to implement the remainder of Year 2000 remediated non-IT systems and applications prior to September 30, 1999. The Company estimates the total costs for modifying or replacing new systems and equipment in this area will be approximately \$0.2 million through fiscal 2000, of which \$0.1 million has been incurred through May 31, 1999.

Material Third Party Relationships.

Material third party supplier relationships affected by Year 2000 issues relate primarily to printing, paper supplies, distribution, fulfillment, licensing and financial services. The Assessment and Remediation phases for determining the Year 2000 readiness of the Company's principal suppliers are an ongoing process. Substantially all of the Company's principal suppliers have reported that they have initiated Year 2000 programs. The Company will seek updates from these parties to attempt to ascertain the adequacy of their programs as it relates to the Company. Testing of critical systems or services will be done on an as needed basis. The Company anticipates that it will develop contingency plans with respect to its principal third party suppliers by October 1999. There can be no assurance, however, that the Company will be able to predict adequately Year 2000 problems experienced by its suppliers or to develop adequate contingency plans related thereto. The costs to the Company in implementing its Year 2000 program in this area, excluding costs due to unanticipated third party Year 2000 problems, will principally consist of internal staff costs, which are not expected to be material. No single vendor or group of vendors are material to the Company's financial condition.

Including the costs set forth above, the Company estimates that total program costs for implementing its Year 2000 program, which includes total costs noted above for IT systems and applications, will be approximately \$12.0 million, of which total program costs through May 31, 1999 have been \$8.1 million. These costs include costs

related to the matters described above, which include consulting and other expenses related to infrastructure and facilities enhancements necessary to prepare the Company for the Year 2000. The costs also include expenses related to internal staff incurred in connection with the implementation of the program. The Year 2000 costs for fiscal 1999 comprised approximately 25% of the Company's IT budget for that period. Based on the current progress of the Company's Year 2000 program, the Company anticipates its Year 2000 program will be substantially completed by August 31, 1999. As a result of the Company's Year 2000 program, delays in other new and continuing IT projects have occurred. However, no material adverse effect is anticipated from such delays as the Company has procedures in place in an effort to ensure that critical projects will continue to be handled in a timely manner. The cost of the Company's Year 2000 program and the remaining dates on which the Company plans to complete the components of the Year 2000 program are based on management's best estimates, which were derived utilizing numerous assumptions of future events, many of which are beyond the Company's control.

The failure to correct a material Year 2000 problem could result in an interruption in, or a failure of, certain normal business activities or operations of the Company. Such failures could materially and adversely affect the Company's financial condition, results of operations and cash flows. Based on current plans and assumptions, the Company does not expect that the Year 2000 issue will have a material adverse impact on the Company as a whole. However, due to the general uncertainty inherent in the Year 2000 problem there can be no assurance that all Year 2000 problems will be foreseen and corrected, or if foreseen, corrected on a timely basis, or that no material disruption to the Company's business or operations will occur. Further, the Company's expectations are based on the assumption that there will be no general failure of external local, national or international systems (including financial, power, communication, postal or other transportation systems) necessary for the ordinary conduct of business. The Company is currently assessing those scenarios in which unexpected failures would have a material adverse effect on the Company and will attempt to develop contingency plans designed to respond to such scenarios. However, there can be no assurance that successful contingency plans can, in fact, be developed or implemented.

All statements regarding Year 2000 Readiness are "Year 2000 Readiness Disclosures" as defined by the Year 2000 Information and Readiness Disclosure Act of October 19, 1998.

NEW ACCOUNTING PRONOUNCEMENTS

Effective August 31, 1998, the Company adopted Statement of Financial Accounting Standards No. 130 (SFAS 130), "Reporting Comprehensive Income." This statement establishes the standards for the reporting and display of comprehensive income and its components in a full set of general purpose financial statements. The presentation of comprehensive income is included in the Statement of Changes in Stockholders' Equity and Comprehensive Income.

Effective May 31, 1999, the Company adopted Statement of Financial Accounting Standards No. 131 (SFAS 131), "Disclosures About Segments of an Enterprise and Related Information." This statement requires that public business enterprises report certain information about operating segments in financial statements of the enterprise issued to stockholders. It also requires that public business enterprises report certain information about their products and services, the geographic areas in which they operate, and their major customers. The required disclosures are presented in Note 2 to the Consolidated Financial Statements.

Effective May 31, 1999, the Company adopted Statement of Financial Accounting Standards No. 132 (SFAS 132), "Employer's Disclosures about Pensions and Other Post-Retirement Benefits." This statement revises employer's disclosures about pension and other post-retirement benefit plans. It standardizes the disclosure requirements for pensions and other post-retirement benefits, requires additional information on changes in the benefit obligations and fair values of plan assets that will facilitate financial analysis, and eliminates certain disclosures required under prior standards. The required disclosures are presented in Note 7 included to the Consolidated Financial Statements.

The Financial Accounting Standards Board issued in June 1998, 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 is required to adopt the provisions of SFAS 133 in the first quarter of fiscal 2002.

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 produce successful educational, trade, entertainment, software products and Internet;
- 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, software markets and Internet;
- o Competition from other educational and trade publishers and media, entertainment companies and Internet;
- 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; and
- o The Company's ability to effectively use the Internet to support its existing businesses and to launch successful new Internet initiatives;
- o The Company's ability to manage seasonality;
- o The general risks attendant to the conduct of business in foreign countries;
- o The effects of the Year 2000 problems as more fully described herein; and

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

ITEM 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 does not consider the impact of currency fluctuations to represent a significant risk. 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. The majority of the Company's long-term debt bears 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.

As of May 31, 1999, the balance outstanding under the facilities which have variable rates, was \$10.0, at an average interest rate of 5.31%. A 15% increase or decrease in the average cost of the Company's variable rate debt under the facility would not have 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, 1999, 1998 and 1997 | 21 |
| Consolidated Balance Sheet at May 31, 1999 and 1998 | 22-23 |
| Consolidated Statement of Changes in Stockholders' Equity and Comprehensive Income for the three years ended May 31, 1999, 1998 and 1997 | 24 |
| Consolidated Statement of Cash Flows for the three years ended May 31, 1999, 1998 and 1997 | 25 |
| Notes to Consolidated Financial Statements | 26-36 |
| Report of Independent Auditors | 37 |
| Supplementary Financial Information - Summary of Quarterly Results of Operations (unaudited) | 38 |
| The following consolidated financial statement schedule of the Company is included in Item 14(d): | |

PAGE

| | |
|--|----|
| Schedule II-- Valuation and Qualifying Accounts and Reserves | 48 |
|--|----|

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.

page intentionally left blank

20 scholastic corporation

CONSOLIDATED STATEMENT OF INCOME

Years ended May 31,

(Amounts in millions, except per share data)

| | 1999 | 1998 | 1997 |
|--|------------|------------|----------|
| Revenues | \$ 1,154.7 | \$ 1,058.4 | \$ 966.3 |
| Operating costs and expenses: | | | |
| Cost of goods sold | 561.1 | 536.8 | 530.7 |
| Selling, general and administrative expenses | 493.3 | 440.3 | 399.6 |
| Other operating costs: | | | |
| Depreciation | 16.9 | 15.0 | 12.8 |
| Goodwill and trademark amortization | 5.5 | 6.7 | 5.5 |
| Impairment of assets | -- | 11.4 | -- |
| Total operating costs and expenses | 1,076.8 | 1,010.2 | 948.6 |
| Operating income | 77.9 | 48.2 | 17.7 |
| Sale of SOHO Group | -- | 10.0 | -- |
| Interest expense, net | (19.0) | (20.1) | (16.7) |
| Earnings before income taxes | 58.9 | 38.1 | 1.0 |
| Provision for income taxes | 22.1 | 14.5 | 0.6 |
| Net income | \$ 36.8 | \$ 23.6 | \$ 0.4 |
| Net income per Class A and Common Share: | | | |
| Basic | \$ 2.25 | \$ 1.46 | \$ 0.02 |
| Diluted | \$ 2.20 | \$ 1.45 | \$ 0.02 |

See accompanying notes

CONSOLIDATED BALANCE SHEET

Balances at May 31,
(Amounts in millions except share and per share data)

| Assets | 1999 | 1998 |
|--|-----------------|-----------------|
| CURRENT ASSETS: | | |
| Cash and cash equivalents | \$ 5.9 | \$ 5.1 |
| Accounts receivable (less allowance for doubtful accounts of \$12.3 in 1999 and \$10.1 in 1998) | 136.4 | 116.7 |
| Inventories | 227.4 | 200.3 |
| Deferred taxes | 41.8 | 41.8 |
| Prepaid and other deferred expenses | 22.7 | 18.8 |
| TOTAL CURRENT ASSETS | 434.2 | 382.7 |
| PROPERTY, PLANT AND EQUIPMENT: | | |
| Land | 6.7 | 6.4 |
| Buildings | 40.1 | 41.1 |
| Furniture, fixtures and equipment | 97.6 | 79.8 |
| Leasehold improvements | 70.1 | 63.8 |
| | 214.5 | 191.1 |
| Less accumulated depreciation and amortization | (65.4) | (54.3) |
| NET PROPERTY, PLANT AND EQUIPMENT | 149.1 | 136.8 |
| OTHER ASSETS AND DEFERRED CHARGES: | | |
| Prepublication costs | 95.3 | 86.3 |
| Goodwill and trademarks | 71.1 | 66.7 |
| Royalty advances | 54.4 | 45.6 |
| Other | 38.2 | 45.5 |
| TOTAL OTHER ASSETS AND DEFERRED CHARGES | 259.0 | 244.1 |
| TOTAL ASSETS | \$ 842.3 | \$ 763.6 |

| LIABILITIES AND STOCKHOLDERS' EQUITY | 1999 | 1998 |
|--|-----------------|-----------------|
| CURRENT LIABILITIES: | | |
| Lines of credit | \$ 18.0 | \$ 9.8 |
| Current portion of long-term debt | 0.2 | 0.3 |
| Accounts payable | 97.0 | 76.9 |
| Accrued royalties | 23.7 | 19.4 |
| Deferred revenue | 6.7 | 10.5 |
| Other accrued expenses | 66.2 | 64.8 |
| TOTAL CURRENT LIABILITIES | 211.8 | 181.7 |
| NONCURRENT LIABILITIES: | | |
| Long-term debt | 248.0 | 243.5 |
| Other noncurrent liabilities | 21.1 | 20.3 |
| TOTAL NONCURRENT LIABILITIES | 269.1 | 263.8 |
| 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-16,946,803 shares (16,741,190 shares at 5/31/98) | 0.2 | 0.2 |
| Additional paid-in capital | 212.3 | 205.1 |
| Accumulated other comprehensive income: | | |
| Foreign currency translation adjustment | (5.7) | (5.0) |
| Retained earnings | 191.4 | 154.6 |
| Less 1,301,658 shares of Common Stock in treasury, at cost | (36.8) | (36.8) |
| TOTAL STOCKHOLDERS' EQUITY | 361.4 | 318.1 |
| TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY | \$ 842.3 | \$ 763.6 |

See accompanying notes

CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY AND COMPREHENSIVE INCOME
 Years ended May 31, 1999, 1998 and 1997
 (Amounts in millions)

| | CLASS A STOCK | COMMON STOCK | ADDITIONAL PAID-IN CAPITAL | ACCUMULATED OTHER COMPREHENSIVE INCOME | RETAINED EARNINGS | TREASURY STOCK | TOTAL STOCKHOLDERS' EQUITY |
|---|---------------|--------------|----------------------------|--|-------------------|----------------|----------------------------|
| BALANCE AT JUNE 1, 1996 | \$ 0.0 | \$ 0.2 | \$ 194.8 | \$ (0.2) | \$ 130.6 | \$ (36.8) | \$ 288.6 |
| Comprehensive income: | | | | | | | |
| Net income | | | | | 0.4 | | 0.4 |
| Other comprehensive income: | | | | | | | |
| Foreign currency translation adjustment | | | | (0.5) | | | (0.5) |
| Total comprehensive income | | | | | | | (0.1) |
| Stock options exercised | | 0.0 | 4.7 | | | | 4.7 |
| Tax benefit realized from stock option transactions | | | 4.2 | | | | 4.2 |
| Stock granted | | | 0.1 | | | | 0.1 |
| BALANCE AT MAY 31, 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 income: | | | | | | | |
| Foreign currency translation adjustment | | | | (4.3) | | | (4.3) |
| Total comprehensive income | | | | | | | 19.3 |
| Stock options exercised | | 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 income: | | | | | | | |
| Foreign currency translation adjustment | | | | (0.7) | | | (0.7) |
| Total comprehensive income | | | | | | | 36.1 |
| Stock options exercised | | 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 |

See accompanying notes

CONSOLIDATED STATEMENT OF CASH FLOWS
Years ended May 31,
(Amounts in millions)

| | 1999 | 1998 | 1997 |
|---|---------|---------|---------|
| Cash flows provided by operating activities: | | | |
| Net income | \$ 36.8 | \$ 23.6 | \$ 0.4 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | | |
| Depreciation and amortization | 22.4 | 21.7 | 18.3 |
| Amortization of prepublication and production costs | 51.2 | 43.2 | 40.1 |
| Royalty advances expensed | 21.8 | 17.7 | 15.2 |
| Provision for losses on accounts receivable | 17.0 | 14.6 | 11.7 |
| Deferred income taxes | (2.1) | (8.4) | (7.0) |
| Impairment of assets | -- | 11.4 | -- |
| Gain on the sale of the SOHO Group | -- | (10.0) | -- |
| Changes in assets and liabilities (net of effects from business acquisitions and dispositions): | | | |
| Accounts receivable | (35.5) | (38.9) | 7.6 |
| Inventory | (23.3) | 13.8 | (29.3) |
| Prepaid expenses | (4.0) | 18.6 | (19.8) |
| Accounts payable and other accrued expenses | 26.5 | (0.5) | 17.3 |
| Accrued royalties | 6.8 | 9.3 | (6.9) |
| Deferred revenues | (3.7) | 3.1 | (0.2) |
| Other, net | 3.7 | (1.5) | (0.7) |
| Total adjustments | 80.8 | 94.1 | 46.3 |
| Net cash provided by operating activities | 117.6 | 117.7 | 46.7 |
| Cash flows used in investing activities: | | | |
| Proceeds received from the sale of the SOHO Group | -- | 19.2 | -- |
| Royalty advances | (27.8) | (31.7) | (34.2) |
| Business and trademark acquisition-related payments | (14.9) | (6.0) | (32.1) |
| Additions to property, plant and equipment | (29.6) | (20.3) | (29.5) |
| Prepublication costs | (46.8) | (25.4) | (26.9) |
| Production costs | (13.8) | (13.0) | (12.5) |
| Other | (3.9) | (2.0) | (2.3) |
| Net cash used in investing activities | (136.8) | (79.2) | (137.5) |
| Cash flows provided by (used in) financing activities: | | | |
| Borrowings under Loan Agreement and Revolver | 269.2 | 243.9 | 301.5 |
| Repayments of Loan Agreement and Revolver | (264.7) | (288.3) | (326.2) |
| Proceeds from issuance of 7% Notes due 2003 | -- | -- | 123.9 |
| Borrowings under lines of credit | 66.9 | 68.6 | 39.3 |
| Repayments of lines of credit | (58.7) | (63.6) | (55.6) |
| Proceeds from exercise of stock options | 5.8 | 0.7 | 4.7 |
| Tax benefit realized from stock option transactions | 1.4 | 0.6 | 4.2 |
| Other | -- | (0.3) | (0.4) |
| Net cash provided by (used in) financing activities | 19.9 | (38.4) | 91.4 |
| Effect of exchange rate changes on cash | 0.1 | 0.1 | 0.0 |
| Net increase in cash and cash equivalents | 0.8 | 0.2 | 0.6 |
| Cash and cash equivalents at beginning of year | 5.1 | 4.9 | 4.3 |
| Cash and cash equivalents at end of year | \$ 5.9 | \$ 5.1 | \$ 4.9 |
| Supplemental information: | | | |
| Income taxes paid | \$ 23.0 | \$ 17.1 | \$ 24.7 |
| Interest paid | 20.1 | 21.5 | 13.1 |

See accompanying notes

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Amounts in millions, except 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. Certain prior year amounts have been reclassified to conform to the current year presentation.

Use of estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. Actual results could differ from those estimates and assumptions. 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 using the film forecast in the proportion that current revenues bear to estimated remaining total lifetime revenues.

The Company regularly evaluates the remaining lives and recoverability of the above costs.

Income tax

The Company provides for income taxes in accordance with Statement of Financial Accounting Standards No. 109 (SFAS 109), "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 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 No. 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.

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, in accordance with the Statement of Financial Accounting Standards No. 128 (SFAS 128), "Earnings per Share." Potentially dilutive securities are excluded from the computation of diluted earnings per share for the periods in which they have an anti-dilutive effect.

Recent accounting principles

Effective August 31, 1998, the Company adopted Statement of Financial Accounting Standards No. 130 (SFAS 130), "Reporting Comprehensive Income." This statement establishes the standards for the reporting and display of comprehensive income and its components in a full set of general purpose financial statements. The presentation of comprehensive income is included in the Consolidated Statement of Changes in Stockholders' Equity and Comprehensive Income.

Effective May 31, 1999, the Company adopted Statement of Financial Accounting Standards No. 131 (SFAS 131), "Disclosures About Segments of an Enterprise and Related Information." This statement requires that public business enterprises report certain information about operating segments in financial statements of the enterprise issued to shareholders. It also requires that public business enterprises report certain information about their products and services, the geographic areas in which they operate, and their major customers. The required disclosures are presented in Note 2 included herein.

Effective May 31, 1999, the Company adopted Statement of Financial Accounting Standards No. 132 (SFAS 132), "Employer's Disclosures about Pensions and Other Post-Retirement Benefits." This statement revises employer's disclosures about pension and other post-retirement benefit plans. It standardizes the disclosure requirements for pensions and other post-retirement benefits, requires additional information on changes in the benefit obligations and fair value of plan assets that will facilitate financial analysis, and eliminates certain disclosures required under prior standards. The required disclosures are presented in Note 7 included herein.

The Financial Accounting Standards Board issued in June 1998, 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 is required to adopt the provisions of SFAS 133 in the first quarter of fiscal 2002.

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 and India and distributes its products and services through a variety of channels, including book clubs, book fairs and trade.

The Company's operations are categorized in the four 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.

The Company's segments are:

- o Children's Book Publishing and Distribution includes the publication and distribution of children's books in the United States to children, parents and teachers through school-based book clubs (including home continuity programs), school-based book fairs and trade channels.
- o Educational Publishing includes the publication and distribution of K-12 textbooks, supplementary materials, classroom magazines and instructional technology for core and supplemental use in United States schools and libraries.
- o Media, Licensing and Advertising includes the production and distribution by the Company's United States-based operations of entertainment products (including television programming, video and motion pictures), Internet services and CD-ROM-based products and Scholastic-branded licensed properties, as well as advertising and promotional activities.
- o International includes the distribution of products and services outside the United States by the Company's operations located in the United Kingdom, Canada, Australia, New Zealand, Mexico, Hong Kong and India.

The following table sets forth information for the fiscal years ended May 31, 1999, 1998 and 1997 about the Company's segments:

| | CHILDREN'S BOOK PUBLISHING AND DISTRIBUTION | EDUCATIONAL PUBLISHING | MEDIA, LICENSING AND ADVERTISING | TOTAL DOMESTIC | INTERNATIONAL | OVERHEAD(1) | CONSOLIDATED |
|---|---|---------------------------|---|-------------------|---------------|-------------|--------------|
| ===== | | | | | | | |
| 1999 | | | | | | | |
| ===== | | | | | | | |
| Revenues | \$ 657.9 | \$ 190.6 | \$ 115.6 | \$ 964.1 | \$ 190.6 | \$-- | \$ 1,154.7 |
| Depreciation | 3.1 | 0.8 | 0.8 | 4.7 | 3.5 | 8.7 | 16.9 |
| Amortization (2) | 13.2 | 24.5 | 15.1 | 52.8 | 3.2 | 0.7 | 56.7 |
| Royalty advance expense | 15.0 | 1.6 | 3.7 | 20.3 | 1.5 | -- | 21.8 |
| Segment profit/(loss) (3) | 109.3 | 2.3 | 0.0 | 111.6 | 4.9 | (38.6) | 77.9 |
| Segment assets | 303.0 | 173.8 | 58.6 | 535.4 | 142.4 | 164.5 | 842.3 |
| Long-lived assets (4) | 84.3 | 103.6 | 29.0 | 216.9 | 57.5 | 104.5 | 378.9 |
| Expenditures for long-lived assets (5) | 37.5 | 34.5 | 19.1 | 91.1 | 10.7 | 16.2 | 118.0 |
| ===== | | | | | | | |
| 1998 | | | | | | | |
| ===== | | | | | | | |
| Revenues | 560.9 | 196.1 | 105.3 | 862.3 | 196.1 | -- | 1,058.4 |
| Depreciation | 2.4 | 0.9 | 0.7 | 4.0 | 3.5 | 7.5 | 15.0 |
| Amortization (2) | 12.8 | 23.7 | 9.9 | 46.4 | 2.6 | 0.9 | 49.9 |
| Royalty advance expense | 13.8 | 0.8 | 1.9 | 16.5 | 1.2 | -- | 17.7 |
| Segment profit/(loss) (3) | 84.6 | 0.5 | (9.5) | 75.6 | 9.7 | (37.1) | 48.2 |
| Segment assets | 241.2 | 185.6 | 47.1 | 473.9 | 134.1 | 155.6 | 763.6 |
| Long-lived assets (4) | 71.0 | 96.1 | 24.1 | 191.2 | 56.8 | 97.2 | 345.2 |
| Expenditures for long-lived assets (5) | 43.2 | 12.4 | 18.2 | 73.8 | 7.4 | 9.2 | 90.4 |
| ===== | | | | | | | |
| 1997 | | | | | | | |
| ===== | | | | | | | |
| Revenues | 511.6 | 163.4 | 112.2 | 787.2 | 179.1 | -- | 966.3 |
| Depreciation | 2.0 | 0.9 | 0.4 | 3.3 | 3.6 | 5.9 | 12.8 |
| Amortization (2) | 12.1 | 20.0 | 11.0 | 43.1 | 2.1 | 0.4 | 45.6 |
| Royalty advance expense | 12.9 | 0.5 | 1.1 | 14.5 | 0.7 | -- | 15.2 |
| Segment profit/(loss) (3) | 65.0 | (21.1) | (6.5) | 37.4 | 11.6 | (31.3) | 17.7 |
| Segment assets | 223.6 | 220.1 | 44.5 | 488.2 | 134.5 | 161.7 | 784.4 |
| Long-lived assets (4) | 67.0 | 109.6 | 24.4 | 201.0 | 61.1 | 95.5 | 357.6 |
| Expenditures for long-lived assets (5) | 46.7 | 15.5 | 17.6 | 79.8 | 5.1 | 18.2 | 103.1 |
| ===== | | | | | | | |

- (1) Overhead includes unallocated corporate-related items, certain non-recurring items and as it relates to the segment profit/(loss), expenses not allocated to reportable segments including costs related to the management of corporate assets, net interest expense and provision for income taxes. Unallocated assets are principally comprised of deferred income taxes and property, plant and equipment as it relates to the Company's headquarters in the metropolitan New York area and its National Service Operation located in the Jefferson City, Missouri area
- (2) Includes amortization of goodwill, intangible assets, and prepublication and production costs
- (3) Segment profit/(loss) represents earnings before interest and taxes
- (4) Includes property, plant and equipment, prepublication costs, goodwill and trademarks, royalty advances and production costs
- (5) Includes purchase of property, plant and equipment, investment in prepublication and production costs, and royalty advances

3. DEBT

Long-term debt consisted of the following at May 31,

| | 1999 | | 1998 | |
|-------------------------------------|-------------------|---------------|-------------------|---------------|
| | CARRYING VALUE | FAIR VALUE | CARRYING VALUE | FAIR VALUE |
| Loan Agreement and Revolver | \$ 10.0 | \$ 10.0 | \$ 5.3 | \$ 5.3 |
| 7% Notes due 2003, net of discount | 124.8 | 126.1 | 124.8 | 127.3 |
| Convertible Subordinated Debentures | 110.0 | 106.7 | 110.0 | 101.4 |
| Other debt | 3.4 | 3.4 | 3.7 | 3.7 |
| Total debt | 248.2 | 246.2 | 243.8 | 237.7 |
| Less current portion | (0.2) | (0.2) | (0.3) | (0.3) |
| TOTAL LONG-TERM DEBT | \$ 248.0 | \$ 246.0 | \$ 243.5 | \$ 237.4 |

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 (the "Loan Agreement") with certain banks which provides for revolving credit loans and letters of credit up to \$135.0, with a right, in certain circumstances, to increase it to \$160.0. Interest charged under this facility was either at the Prime Rate or .325% to .90% over LIBOR (as defined). There was a commitment fee charged which ranges from .10% to .3625% on the unused portion. The amounts charged varied based upon the Company's credit ratings. The Loan Agreement contains certain financial covenants related to debt and interest coverage ratios (as defined) and limits dividends and other distributions. The Loan Agreement was to expire on May 31, 2000. The Company has amended and restated its Loan Agreement, effective August 11, 1999, under which amendment the term is extended until August 11, 2004 (see Note 12 - Subsequent Event).

Revolver

On June 19, 1995, the Company and Scholastic Inc. entered into a Revolving Loan Agreement (the "Revolver") with Sun Bank, N. A., which provides for revolving credit loans and expires on May 31, 2000. The Revolver has certain financial covenants related to debt and interest coverage ratios (as defined) and limits dividends and other distributions. On August 14, 1996, the Revolver was amended to increase the aggregate principal amount to \$35.0 and was last amended on November 28, 1997.

7% Notes Due 2003

On December 23, 1996, the Company issued \$125.0 million of 7% Notes due 2003 (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 the portion sold under Rule 144A is 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, which are pari passu.

Other lines of credit -- short term

The Company's international subsidiaries had lines of credit available of \$37.9 at May 31, 1999. There were \$18.0 outstanding under these credit lines at May 31, 1999. The weighted-average interest rates on the outstanding amounts were 7.15% at May 31, 1999.

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 \$32.2, \$26.2 and \$24.4 for the fiscal years ended May 31, 1999, 1998 and 1997, 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, 1999, under all non-cancelable operating leases, totaling \$162.3, are as follows: 2000 - \$30.6; 2001 - \$25.5; 2002 - \$21.8; 2003 - \$17.8; 2004 - \$12.9; later years - \$53.7.

The Company had certain contractual commitments at May 31, 1999 totaling \$22.4. The aggregate annual commitments were as follows: 2000 - \$17.1; 2001 - \$3.3; 2002 - \$1.7; 2003 - \$0.3; 2004 - none; 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 December 14, 1998, an order was entered granting the Company's motion to dismiss plaintiffs' complaint. In dismissing the complaint, the court held that plaintiffs failed to state a claim upon which relief can be granted and granted plaintiffs leave to amend the complaint. Pursuant to that order, plaintiffs filed a second consolidated amended complaint, on or about February 16, 1999, alleging substantially similar

claims against the Company and one of its officers. The Company filed a motion to dismiss the complaint on April 16, 1999. 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 Court of New York County of New York against Parachute Press, Inc. ("Parachute"), the licensor of certain publication and nonpublication rights to the Goosebumps(R) 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 has filed an appeal of the dismissal. 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 Court of New York County of New York. 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 publishing 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 repayment by Parachute of a portion of the \$15.3 advance already paid. Discovery, which has been consolidated for the litigations, has commenced. The Company intends to vigorously pursue its claims against Parachute and the other named defendants and to vigorously defend against Parachute's lawsuit and appeal. The Company does not believe that this dispute will have a material adverse effect on its financial condition.

The Company is also engaged in various legal proceedings incident to its normal business activities. In the opinion of the Company, none of such proceedings is material to the consolidated financial position of the Company.

5. INCOME TAX EXPENSE

Consolidated income tax expense for the indicated fiscal years ended May 31 was based on earnings before taxes as follows:

| | 1999 | 1998 | 1997 |
|---|---------|---------|----------|
| Domestic | \$ 63.0 | \$ 36.6 | \$ (3.3) |
| International wholly-owned subsidiaries | (4.1) | 1.5 | 4.3 |
| | \$ 58.9 | \$ 38.1 | \$ 1.0 |

Income tax expense/(benefit) for the indicated fiscal years ended May 31 consists of the following components:

| | 1999 | 1998 | 1997 |
|------------------------|---------|---------|----------|
| FEDERAL | | | |
| Current | \$ 21.3 | \$ 18.4 | \$ 1.9 |
| Deferred | (2.6) | (8.6) | (7.6) |
| | \$ 18.7 | \$ 9.8 | \$ (5.7) |
| STATE AND LOCAL | | | |
| Current | \$ 2.7 | \$ 3.0 | \$ 2.9 |
| Deferred | 0.2 | 0.1 | 0.6 |
| | \$ 2.9 | \$ 3.1 | \$ 3.5 |
| INTERNATIONAL | | | |
| Current | \$ 0.2 | \$ 1.5 | \$ 2.8 |
| Deferred | 0.3 | 0.1 | 0.0 |
| | \$ 0.5 | \$ 1.6 | \$ 2.8 |
| TOTAL | | | |
| Current | \$ 24.2 | \$ 22.9 | \$ 7.6 |
| Deferred | (2.1) | (8.4) | (7.0) |
| | \$ 22.1 | \$ 14.5 | \$ 0.6 |

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

| | 1999 | 1998 | 1997 |
|---|--------------|----------------|---------------|
| Computed federal statutory provision | \$ 20.6 | \$ 13.3 | \$ 0.4 |
| State income tax provision net of federal income tax benefit | 1.9 | 2.0 | 2.2 |
| Difference in effective tax rates on earnings of foreign subsidiaries | (0.1) | (0.9) | (0.2) |
| Charitable contributions | (0.5) | 0.0 | (1.8) |
| Other - net | 0.2 | 0.1 | 0.0 |
| TOTAL PROVISION FOR INCOME TAXES | 22.1 | \$ 14.5 | \$ 0.6 |
| EFFECTIVE TAX RATES | 37.5% | 38.0% | 64.6% |

The undistributed earnings of foreign subsidiaries at May 31, 1999 are \$23.7. Any remittance of foreign earnings would not result in significant additional tax.

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

| | 1999 | 1998 |
|--|----------------|----------------|
| NET DEFERRED TAX ASSETS: | | |
| Tax uniform capitalization | \$ 23.6 | \$ 16.8 |
| Inventory reserves | 11.7 | 11.4 |
| Other accounting reserves | 3.6 | 7.3 |
| Tax carryforwards | 1.3 | 2.5 |
| Post-retirement, post-employment and pension obligations | 7.0 | 6.3 |
| Theatrical motion picture accounting | 2.4 | 2.4 |
| Depreciation | (3.6) | (2.8) |
| Other - net | (4.3) | (0.7) |
| Net deferred tax assets | \$ 41.7 | \$ 43.2 |

Net deferred tax assets of \$41.7 at May 31, 1999 and \$43.2 at May 31, 1998 include \$1.2 and \$4.0 in Other assets, and \$(1.3) and \$(2.6) in Other noncurrent liabilities at May 31, 1999 and 1998, respectively.

6. CAPITAL STOCK AND STOCK OPTIONS

The Company has authorized capital stock of 25,000,000 shares of Common Stock, \$.01 par value (the "Common Stock"), 2,500,000 shares of Class A Stock, \$.01 par value (the "Class A Stock"), and 1,000,000 shares of Preferred Stock, \$1.00 par value (the "Preferred Stock"). At May 31, 1999, 15,645,145 shares of Common Stock, 828,100 shares of Class A Stock and no shares of the Preferred Stock were issued and outstanding and 1,301,658 shares of common stock were designated as treasury stock. At May 31, 1999, the Company had reserved 2,425,546 shares of Common Stock for issuance under its stock option plans, 828,100 shares were reserved for issuance upon conversion of the Class A Stock, 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. 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. These warrants vest based on meeting certain performance criteria and expire on August 6, 2003. At such time as these criteria are met, the fair value of the warrants at that date will be recorded as expense.

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. Two million shares of Common Stock were initially 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 1.5 million shares of Common Stock under the 1995 Option Plan. The 1995 Plan supplemented the 1992 Stock Option Plan (the "1992 Plan"). At May 31, 1999, options to purchase 1,959,272 and 671,725 shares of Common Stock were outstanding under the 1995 Plan and the 1992 Plan, respectively; 1,454,434 shares and no shares of Common Stock were available for additional awards under the 1995 Plan and 1992 Plan, respectively.

In fiscal 1998, the Company adopted the stockholder approved 1997 Outside Directors' Stock Option Plan (the "Director Option Plan"), which provides for the grant of non-qualified options to purchase Common Stock, with 180,000 shares reserved for issuance. This plan provides for the automatic grant to non-employee directors each January of options to purchase 3,000 shares of Common Stock. At May 31, 1999, options to purchase 63,000 shares of Common Stock were outstanding and options on 114,000 shares of Common Stock were available for additional awards under this plan. In January 1999 and 1998, options were awarded under this plan at exercise prices of \$56.94 and \$35.75, respectively. In fiscal 1997, the Company issued an aggregate of 1,683 shares of Common Stock under a Non-Employee Director Stock-for-Retainer Plan, which was terminated in fiscal 1998 concurrently with the adoption of the Director Option Plan. Under a prior director stock option plan, options to purchase 24,000 shares of Common Stock are outstanding.

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

Activity under the various stock option plans for the indicated fiscal years ended May 31 was as follows:

| | 1999 ===== | | 1998 ===== | | 1997 ===== | |
|---------------------------------|---------------|------------------------------------|---------------|------------------------------------|---------------|------------------------------------|
| | OPTIONS | WEIGHTED-AVERAGE EXERCISE PRICE | OPTIONS | WEIGHTED-AVERAGE EXERCISE PRICE | OPTIONS | WEIGHTED-AVERAGE EXERCISE PRICE |
| Outstanding - beginning of year | 2,617,659 | \$ 38.42 | 900,850 | \$ 41.94 | 1,075,400 | \$ 29.32 |
| Granted | 333,400 | 43.64 | 1,870,560 | 35.43 | 218,500 | 64.23 |
| Exercised | (205,613) | 28.15 | (69,500) | 9.93 | (338,175) | 13.88 |
| Cancelled | (27,449) | 35.40 | (84,251) | 44.12 | (54,875) | 56.30 |
| Outstanding - end of year | 2,717,997 | \$ 39.87 | 2,617,659 | \$ 38.42 | 900,850 | \$ 41.94 |
| Exercisable - end of year | 1,663,721 | \$ 38.46 | 539,651 | \$ 36.49 | 436,363 | \$ 25.33 |

At May 31, 1999, for each of the following classes of options as determined by range of exercise price, the information regarding weighted-average exercise prices and weighted-average remaining contractual lives of each said class 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 |
| \$ 9.03-- \$ 14.78 | 97,500 | \$ 9.74 | 1.0 years | 97,500 | \$ 9.74 |
| \$ 27.75-- \$ 39.94 | 2,055,947 | \$ 36.26 | 8.1 years | 1,270,147 | \$ 36.21 |
| \$ 46.47-- \$ 68.81 | 564,550 | \$ 58.22 | 7.1 years | 296,074 | \$ 57.57 |

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 when the exercise price and number of shares subject to grant were fixed.

If the Company had elected to recognize compensation cost based on the fair value of the options granted at grant date as prescribed by SFAS 123, net income and earnings per share would have been reduced to the pro forma amounts indicated in the table below:

| | 1999 | 1998 | 1997 |
|---|---------|---------|---------|
| Net income - as reported | \$ 36.8 | \$ 23.6 | \$ 0.4 |
| Net income/(loss) - pro forma | 27.7 | 14.5 | (0.8) |
| Diluted earnings per share - as reported | \$ 2.20 | \$ 1.45 | \$ 0.02 |
| Diluted earnings/(loss) per share pro forma | 1.67 | 0.89 | (0.05) |

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:

| | 1999 | 1998 | 1997 |
|---------------------------------|---------|---------|---------|
| Expected dividend yield | 0.00% | 0.00% | 0.00% |
| Expected stock price volatility | 0.409 | 0.346 | 0.184 |
| Risk-free interest rate | 5.24% | 6.02% | 6.63% |
| Expected life of options | 5 years | 5 years | 5 years |

The weighted-average fair value of options granted during fiscal 1999, 1998 and 1997 were \$18.89, \$14.64 and \$20.39 per share, respectively. For purposes of pro forma disclosure, the estimated fair value of the options is amortized over the options' vesting period. The pro forma 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 subsequent to June 1, 1995.

7. EMPLOYEE BENEFIT PLANS

The Company has a defined benefit pension plan (the "US Pension Plan") which covers the majority of the US employees who meet certain eligibility requirements. Benefits are based on years of service and on career average compensation. The US Pension Plan is funded by contributions from 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 international subsidiary in the United Kingdom has a defined benefit pension plan (the "UK Pension Plan") covering those employees meeting minimum length of service requirements. Benefits are based on years of service and on a percentage of compensation near retirement. The UK Pension Plan is funded by contributions from the subsidiary and its employees.

Other benefits consist of certain healthcare and life insurance benefits that the Company provides for retired employees. A majority of the Company's domestic employees may become eligible for these benefits if they reach normal retirement age while working for the Company.

 space intentionally left blank

Total defined benefit pension plan costs under the US and UK Pension Plans for the indicated fiscal years ended May 31 are summarized as follows:

| | PENSION BENEFITS | | OTHER BENEFITS | |
|---|------------------|--------------|----------------|---------------|
| | 1999 | 1998 | 1999 | 1998 |
| CHANGE IN BENEFIT OBLIGATION | | | | |
| Benefit obligation at beginning of year | \$ 26.9 | \$ 20.9 | \$ 11.0 | \$ 11.4 |
| Service cost | 2.5 | 1.7 | 0.5 | 0.4 |
| Interest cost | 1.9 | 1.6 | 0.8 | 0.8 |
| Plan participants' contributions | 0.6 | 0.6 | 0.1 | 0.1 |
| Amendments | -- | -- | (0.2) | -- |
| Actuarial (gains)/losses | 1.4 | 3.4 | 0.1 | (1.1) |
| Benefits paid | (1.3) | (1.3) | (0.8) | (0.6) |
| BENEFIT OBLIGATION AT END OF YEAR | 32.0 | 26.9 | 11.5 | 11.0 |
| CHANGE IN PLAN ASSETS | | | | |
| Fair value of plan assets at beginning of year | 24.1 | 20.7 | -- | -- |
| Actual return on plan assets | 1.3 | 2.8 | -- | -- |
| Company contributions | 2.2 | 1.9 | -- | -- |
| Plan participants' contributions | -- | -- | -- | -- |
| Benefits paid | (1.3) | (1.3) | -- | -- |
| FAIR VALUE OF PLAN ASSETS AT END OF YEAR | 26.3 | 24.1 | -- | -- |
| Underfunded status of the plan | (5.7) | (2.8) | (11.5) | (11.0) |
| Unrecognized net actuarial gain | (2.8) | (1.2) | (2.8) | (3.1) |
| Unrecognized prior service cost | 0.8 | 1.1 | (0.2) | 0.0 |
| Unrecognized net asset obligation | 0.8 | 1.0 | 0.0 | 0.0 |
| ACCRUED BENEFIT COST | (6.9) | (1.9) | (14.5) | (14.1) |
| WEIGHTED-AVERAGE ASSUMPTIONS | | | | |
| Discount rate | 7.1% | 7.0% | 7.3% | 7.0% |
| Compensation increase factor | 4.3% | 5.0% | -- | -- |

Plan assets consist primarily of stocks, bonds, money market funds and US 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 9.3% for fiscal 1999 and 1998.

The components of the net periodic post-retirement benefit costs for the indicated fiscal years ended May 31 are as follows:

| | Pension Benefits | | | Other Benefits | | |
|--|------------------|---------------|---------------|----------------|---------------|---------------|
| | 1999 | 1998 | 1997 | 1999 | 1998 | 1997 |
| Components of Net Periodic Benefit Cost | | | | | | |
| Service cost | \$ 2.5 | \$ 1.7 | \$ 1.5 | \$ 0.5 | \$ 0.4 | \$ 0.3 |
| Interest cost | 1.9 | 1.6 | 1.4 | 0.8 | 0.8 | 0.8 |
| Expected return on assets | (0.9) | (2.9) | (3.2) | -- | -- | -- |
| Net amortization and deferrals | 0.3 | 0.3 | 0.3 | (0.1) | -- | -- |
| Recognized net actuarial gain | (1.4) | 1.0 | 1.7 | -- | -- | -- |
| Net periodic benefit cost | \$ 2.4 | \$ 1.7 | \$ 1.7 | \$ 1.2 | \$ 1.2 | \$ 1.1 |

The accumulated post-retirement benefit obligation was determined using a discount rate of 7.25%. Service cost and interest components were determined using a discount rate of 7.0%. The health care cost trend rate assumed was 9.0% with an annual decline of 1% until the rate reaches 5.0% in the year 2003. A decrease of 1% in the health care cost trend rate would result in decreases of approximately \$1.4 in the accumulated benefit obligation and \$0.2 in the annual net periodic post-retirement benefit cost. An increase of 1.0% in the health care cost trend rate would result in increases of approximately \$1.7 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 and the Employee Stock Purchase Plan.

8. EARNINGS PER SHARE

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

| | 1999 | 1998 | 1997 |
|--|---------|---------|---------|
| Net Income | \$ 36.8 | \$ 23.6 | \$ 0.4 |
| Weighted average Class A and Common Shares outstanding for basic earnings per share | 16.4 | 16.2 | 16.0 |
| Dilutive effect of employee stock options | 0.3 | 0.2 | 0.3 |
| Dilutive effect of warrants | 0.0 | -- | -- |
| Adjusted weighted average Class A and Common Shares for diluted earnings per share outstanding | 16.7 | 16.4 | 16.3 |
| Net Income per Class A and Common Shares | | | |
| Basic | \$ 2.25 | \$ 1.46 | \$ 0.02 |
| Diluted | \$ 2.20 | \$ 1.45 | \$ 0.02 |

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

9. IMPAIRMENT OF ASSETS

Fiscal year 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 segment and the Media, Licensing and Advertising segment, 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 investments and ongoing cash flows. These charges consist primarily of unamortized prepublication 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 deferred expenses include deferred magazine acquisition expenses of \$5.7 and \$4.6 at May 31, 1999 and 1998, respectively. The Company expensed \$8.1, \$7.3 and \$0.0 of magazine acquisition expenses in fiscal years 1999, 1998 and 1997, respectively.

Property, plant and equipment include capitalized interest of \$0.6 and \$0.0 and construction in progress of \$13.1 and \$5.1 at May 31, 1999 and 1998, respectively, related to the expansion of the Company's headquarters.

Goodwill and Trademarks are net of accumulated amortization of \$16.6 and \$12.0 at May 31, 1999 and 1998, respectively.

Other assets and deferred charges are net of accumulated amortization of prepublication costs of \$68.1 and \$49.8 at May 31, 1999 and 1998, 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 and \$11.8, and accrued taxes of \$7.9 and \$10.2 at May 31, 1999 and 1998, respectively.

12. SUBSEQUENT EVENT

As indicated in Note 3, effective August 11, 1999, the Company, Scholastic Inc. and the banks party thereto have amended and restated the Loan Agreement. The amended Loan Agreement expires August 11, 2004, provides for aggregate 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. Interest under this facility is either at the prime rate or 0.325% to 0.90% over LIBOR (as defined). There is a commitment fee ranging from 0.10% to 0.30% on the facility 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 ratings. At the Company's current credit ratings, the spread over LIBOR, commitment fee and utilization fee are 0.475%, 0.150% and 0.075%, respectively. The Loan Agreement contains certain financial covenants related to debt and interest coverage ratios (as defined) and limits dividends and other distributions.

space intentionally left blank

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, 1999 and 1998, 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, 1999. Our audits also included the financial statement schedule listed in the Index at Item 14(a). These financial statements and schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and schedule based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes 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, 1999 and 1998 and the consolidated results of its operations, and its cash flows for each of the three years in the period ended May 31, 1999 in conformity with generally accepted accounting principles. Also, in our opinion, the related financial statement schedule, when considered in relation to the basic financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

/s/ERNST & YOUNG LLP

New York, New York
July 8, 1999,
except for Note 12, as to which the date is
August 11, 1999

annual report/fiscal 1999 37

SUPPLEMENTARY FINANCIAL INFORMATION

Summary of Quarterly Results of Operations for the fiscal years ended May 31, 1999 and 1998 (Unaudited, amounts in millions except per share data)

| | FIRST QUARTER | SECOND QUARTER | THIRD QUARTER | FOURTH QUARTER | YEAR |
|------------------------------|------------------|-------------------|------------------|-------------------|------------|
| ===== | | | | | |
| 1999 | | | | | |
| ===== | | | | | |
| Revenues | \$ 150.2 | \$ 403.2 | \$ 267.3 | \$ 334.0 | \$ 1,154.7 |
| Cost of goods sold | 85.2 | 187.3 | 133.5 | 155.1 | 561.1 |
| Net income/(loss) | (17.5) | 31.7 | 0.2 | 22.4 | 36.8 |
| Net income/(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 |
| ===== | | | | | |
| 1998 | | | | | |
| ===== | | | | | |
| Revenues | \$ 166.6 | \$ 354.8 | \$ 239.0 | \$ 298.0 | \$ 1,058.4 |
| Cost of goods sold | 96.1 | 176.6 | 121.8 | 142.3 | 536.8 |
| Net income/(loss) | (13.2) | 26.0 | (3.1) | 13.9 | 23.6 |
| Net income/(loss) per share: | | | | | |
| Basic | (0.81) | 1.61 | (0.19) | 0.86 | 1.46 |
| Diluted | (0.81) | 1.51 | (0.19) | 0.83 | 1.45 |
| ----- | | | | | |

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

None.

space intentionally left blank

38 scholastic corporation

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 July 15, 1999)

| NAME | AGE | EMPLOYED BY REGISTRANT SINCE | POSITION(S) FOR PAST FIVE YEARS |
|----------------------|-----|------------------------------|---|
| Richard Robinson | 62 | 1962 | Chairman of the Board (since 1982), President (since 1974) and Chief Executive Officer (since 1975). |
| Kevin J. McEnery | 51 | 1993 | Executive Vice President and Chief Financial Officer (since 1995), Vice President of Strategic Planning and Operations, Magazine and Technology Groups (1993-1995). |
| Deborah A. Forte | 45 | 1984 | Executive Vice President (since 1996), Senior Vice President (1995) and Division Head, Scholastic Entertainment Inc. ("SEI") (since 1995); Executive Vice President of SEI (1994) and Vice President of SEI (1984-1994). |
| Barbara A. Marcus | 48 | 1983 | Executive Vice President, Children's Book Publishing (since 1991). |
| Margery W. Mayer | 47 | 1990 | Executive Vice President (since 1990)--Learning Ventures (since 1998), Instructional Publishing and Scholastic School Group (1990-1997). |
| Ruth L. Otte | 50 | 1996 | Executive Vice President (since 1996)--Internet and Software (since 1999), Education Group (1998-1999) and New Media Division (1996-1998); and prior to joining the Registrant, President (1994-1995), Knowledge Adventure. |
| Hugh Roome | 47 | 1991 | Executive Vice President (since 1996), Senior Vice President (1993-1996)--Magazine Group (since 1993). |
| Richard M. Spaulding | 62 | 1960 | Director (since 1974) and Executive Vice President (since 1974). |
| Judith A. Corman | 61 | 1999 | Senior Vice President, Corporate Communications and Media Relations (since 1999); and prior to joining the Registrant, Senior Vice President, Lerer & Montgomery (1994-1999). |
| Charles B. Deull | 39 | 1995 | Senior Vice President, Legal and Business Affairs (since 1995); Secretary (since 1996); and prior to joining the Registrant, Associate, law firm of Cleary, Gottlieb, Steen and Hamilton (1986-1995). |
| Jean L. Feiwel | 46 | 1983 | Senior Vice President, Publisher, Children's Book Publishing (since 1993). |

| NAME | AGE | EMPLOYED BY REGISTRANT SINCE | POSITION(S) FOR PAST FIVE YEARS |
|---------------------|-----|------------------------------|---|
| Ernest B. Fleishman | 62 | 1989 | Senior Vice President, Education and Corporate Relations (since 1989). |
| Maurice Greenfield | 56 | 1999 | Senior Vice President and Chief Information Officer (since 1999); and prior to joining the Registrant, Vice President, MIS, National Broadcasting Company (1985-1999). |
| Frank Grohowski | 58 | 1985 | Senior Vice President, Operations (since 1995) and Vice President, Operations (1985-1995). |
| Larry V. Holland | 40 | 1994 | Senior Vice President, Corporate Human Resources and Employee Services (since 1997) and Vice President, Human Resources (1994-1997). |
| Linda S. Koons | 44 | 1990 | Senior Vice President (since 1998), Vice President (1995-1998); Publisher (since 1994), Group Head, Education Group (since 1999), Education Group (1998-1999); Supplementary Publishing (1997-1998), Early Childhood Division (1995-1997); and from 1994 to 1995, Director of School Product Development, Disney Interactive. |
| David J. Walsh | 63 | 1983 | Senior Vice President, International Operations (since 1983). |
| Helen V. Benham | 49 | 1974 | Director (since 1992), Corporate Vice President, Early Childhood Advisor (since 1996); Vice President and Publisher, Early Childhood Division (1990-1996). |
| Claudia H. Cohl | 59 | 1975 | Vice President (since 1978)--Internal Communications (since 1999), Editorial Planning and Development, Scholastic Education Group (1993-1999). |
| Raymond Marchuk | 48 | 1983 | Vice President (since 1983), Finance & Investor Relations. |
| Karen A. Maloney | 42 | 1997 | Vice President and Corporate Controller (since 1998), Director of Accounting and Financial Operations (1997-1998); and prior to joining the Registrant, Vice President and Corporate Controller, Calvin Klein, Inc. (1996-1997); Vice President and Corporate Controller, Bernard Chaus, Inc.(1995-1996). |
| Vincent M. Marzano | 36 | 1987 | Treasurer (since 1993). |
| David D. Yun | 51 | 1988 | President, Scholastic Book Fairs (since 1992). |

40 scholastic corporation

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)(3) Exhibits:

Exhibit Number

- 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 By-Laws of the Company (incorporated by reference to the Company's Registration Statement on Form S-1 (Registration No. 33-45022) as filed with the Commission on January 10, 1992 (the "1992 Registration Statement"))).
- 4.1 Amended and Restated Credit Agreement dated 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, replacing in its entirety the Amended and Restated Loan Agreement dated April 11, 1995 between the Company and Citibank, N.A., as agent, Marine Midland Bank, Chase Manhattan Bank, N.A., The First National Bank of Boston and United Jersey Bank (incorporated by reference to the Company's Form 10-Q for the quarter ended February 28, 1995 as filed with the Commission on April 13, 1995), together with Amendment No. 1 to the Loan Agreement dated May 1, 1996 (incorporated by reference to the Company's Annual Report on Form 10-K as filed with the Commission on August 28, 1996); Amendment No. 2 to the Loan Agreement dated May 28, 1997 (incorporated by reference to the Company's Form 10-Q for the quarter ended August 31, 1997 as filed with the Commission on October 15, 1997); and Amendment No. 3 to the Loan Agreement dated November 28, 1997 (incorporated by reference to the Company's Form 10-Q for the quarter ended November 30, 1997 as filed with the Commission on January 14, 1998).
- 4.2* Revolving Loan Agreement dated June 19, 1995 among the Company, Scholastic Inc. and Sun Bank, National Association, as amended August 14, 1996, May 30, 1997, and November 28, 1997.
- 4.3* Credit Agreement Facility dated June 1, 1992, as amended on October 30, 1995, between Scholastic Canada Ltd. and CIBC.
- 4.4* Credit Agreement Facility dated June 24, 1993 between Scholastic Ltd. (formerly known as Scholastic Publications Ltd.) and Citibank, N.A.
- 4.5* Overdraft Facility dated May 14, 1992, as amended on June 30, 1995, between Scholastic Ltd. (formerly known as Scholastic Publications Ltd.) and Midland Bank.
- 4.6* 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.

- 4.7* Credit Agreement, dated April 20, 1993 between Scholastic New Zealand Ltd. (Formerly Ashton Scholastic Ltd.) and ANZ Banking Group Ltd.
- 4.8* Credit Agreement, dated May 28, 1998 between Scholastic Australia Pty. Ltd. and Hong Kong Bank of Australia Ltd.
- 4.9 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).
- 4.10 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).
- 10.2** 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).
- 10.4** 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).
- 10.5** 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).
- 10.6** Scholastic Corporation 1998 Employee Stock Purchase Plan, effective as of January 1, 1999 (incorporated by reference to the Company's Quarterly Report on Form 10-Q as filed with the Commission on April 14, 1999).
- 10.7** Scholastic Corporation 1998 Management Stock Purchase Plan, effective as of January 1, 1999 (incorporated by reference to the Company's Quarterly Report on Form 10-Q as filed with the Commission on April 14, 1999).
- 10.8** 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).
- 10.9** Scholastic Corporation 1997 Outside Director Stock Option Plan, amended and restated as of May 25, 1999.
- 10.10** 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).
- 10.11** Scholastic Corporation 1995 Director's Deferred Compensation Plan, amended and restated as of May 25, 1999.
- 10.12** Employment Agreement between Jean L. Feiwel and Scholastic Inc., dated April 6, 1998 (incorporated by reference to the Company's Annual Report on Form 10-K as filed with the Commission on August 26, 1998).
- 10.13** Description of contingent long-term incentive arrangement between David D. Yun and Scholastic Inc., effective September 16, 1998.
- 10.14** Scholastic Corporation Non-Employee Director Stock-For-Retainer Plan (incorporated by reference to the Company's Registration Statement on Form S-8 (Registration No. 33-74064) as filed with the Commission on January 11, 1994).
- 10.15 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.
- 10.16 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.
- 10.17 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.

27.1 Financial Data Schedule for the year ended May 31, 1999.

27.2 Financial Data Schedule restated for the year ended May 31, 1998.

(b) Reports on Form 8-K.

No current Report on Form 8-K was filed during the fourth quarter ended May 31, 1999.

* 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.

space intentionally left blank

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 20, 1999

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 20, 1999 |
| /s/ Richard M. Spaulding ----- Richard M. Spaulding | Executive Vice President and Director | August 20, 1999 |
| /s/ Kevin J. McEnergy ----- Kevin J. McEnergy | Executive Vice President and Chief Financial Officer (Principal Financial Officer) | August 20, 1999 |
| /s/ Karen A Maloney ----- Karen A. Maloney | Vice President and Corporate Controller (Principal Accounting Officer) | August 20, 1999 |
| /s/ Rebeca M. Barrera ----- Rebeca M. Barrera | Director | August 20, 1999 |
| /s/ Helen V. Benham ----- Helen V. Benham | Director | August 20, 1999 |
| /s/ Frederic J. Bischoff ----- Frederic J. Bischoff | Director | August 20, 1999 |
| /s/ John Brademas ----- John Brademas | Director | August 20, 1999 |

| SIGNATURE | TITLE | DATE |
|---|----------|-----------------|
| /s/ Ramon C. Cortines ----- Ramon C. Cortines | Director | August 20, 1999 |
| /s/ Alonzo A. Crim ----- Alonzo A. Crim | Director | August 20, 1999 |
| /s/ Charles T. Harris, III ----- Charles T. Harris, III | Director | August 20, 1999 |
| /s/ Andrew S. Hedden ----- Andrew S. Hedden | Director | August 20, 1999 |
| /s/ Mae C. Jemison ----- Mae C. Jemison | Director | August 20, 1999 |
| /s/ Richard A. Krinsley ----- Richard A. Krinsley | Director | August 20, 1999 |
| /s/ John G. McDonald ----- John G. McDonald | Director | August 20, 1999 |
| /s/ Peter M. Mayer ----- Peter M. Mayer | Director | August 20, 1999 |
| /s/ Augustus K. Oliver ----- Augustus K. Oliver | Director | August 20, 1999 |
| ----- space intentionally left blank | | |

page intentionally left blank

46 scholastic corporation

SCHOLASTIC CORPORATION
ANNUAL REPORT ON FORM 10-K
YEAR ENDED MAY 31, 1999
ITEM 14(D)

FINANCIAL STATEMENT SCHEDULE

annual report/fiscal 1999 47

SCHEDULE II

SCHOLASTIC CORPORATION
 Valuation And Qualifying Accounts And Reserves
 Years Ended May 31, 1999, 1998 and 1997
 (Amounts in millions)

| DESCRIPTION | BALANCE AT BEGINNING OF YEAR | CHARGED TO INCOME | WRITE-OFF'S AND OTHER | BALANCE AT END OF YEAR |
|---------------------------------|---------------------------------|----------------------|--------------------------|---------------------------|
| ===== | | | | |
| MAY 31, 1999 | | | | |
| ===== | | | | |
| Reserve for royalty advances | \$ 29.7 | \$ 2.3 | \$ 0.1 | \$ 31.9 |
| ===== | | | | |
| Reserve for obsolescence | \$ 30.7 | \$ 18.8 | \$ 13.4 | \$ 36.1 |
| ===== | | | | |
| Reserve for returns | \$ 20.5 | \$ 45.9 | \$ 42.1 (1) | \$ 24.3 |
| ===== | | | | |
| 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 | \$ 30.2 | \$ 41.8 | \$ 51.5 (1) | \$ 20.5 |
| ===== | | | | |
| Allowance for doubtful accounts | \$ 7.8 | \$ 14.6 | \$ 12.3 | \$ 10.1 |
| ===== | | | | |
| May 31, 1997 | | | | |
| ===== | | | | |
| Reserve for royalty advances | \$ 24.9 | \$ 2.3 | \$ 2.1 | \$ 25.1 |
| ===== | | | | |
| Reserve for obsolescence | \$ 27.1 | \$ 21.1 | \$ 14.2 | \$ 34.0 |
| ===== | | | | |
| Reserve for returns | \$ 27.6 | \$ 68.7 | \$ 66.1 (1) | \$ 30.2 |
| ===== | | | | |
| Allowance for doubtful accounts | \$ 9.2 | \$ 11.7 | \$ 13.1 | \$ 7.8 |
| ===== | | | | |

(1) Represents actual returns charged to reserve

SCHOLASTIC CORPORATION

EXHIBITS

TO THE ANNUAL REPORT ON FORM 10-K
FOR FISCAL YEAR ENDED MAY 31, 1999

EXHIBIT INDEX

Regulation S-K
Exhibit Number

Description of Document

- 4.1 Amended and Restated Credit Agreement dated 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, replacing in its entirety the Amended and Restated Loan Agreement dated April 11, 1995 between the Company and Citibank, N.A., as agent, Marine Midland Bank, Chase Manhattan Bank, N.A., The First National Bank of Boston and United Jersey Bank (incorporated by reference to the Company's Form 10-Q for the quarter ended February 28, 1995 as filed with the Commission on April 13, 1995), together with Amendment No. 1 to the Loan Agreement dated May 1, 1996 (incorporated by reference to the Company's Annual Report on Form 10-K as filed with the Commission on August 28, 1996); Amendment No. 2 to the Loan Agreement dated May 28, 1997 (incorporated by reference to the Company's Form 10-Q for the quarter ended August 31, 1997 as filed with the Commission on October 15, 1997); and Amendment No. 3 to the Loan Agreement dated November 28, 1997 (incorporated by reference to the Company's Form 10-Q for the quarter ended November 30, 1997 as filed with the Commission on January 14, 1998).
- 10.9 Scholastic Corporation 1997 Outside Directors' Stock Option Plan, amended and restated as of May 25, 1999.
- 10.11 Scholastic Corporation Director's Deferred Compensation Plan, amended and restated as of May 25, 1999.
- 10.13 Description of contingent long-term incentive arrangement between David D. Yun and Scholastic Inc., effective as of September 16, 1998.
- 10.14 Amended and Restated Lease, effective as of August 1, 1999, between ISE 555Broadway, LLC, landlord, and Scholastic Inc., tenant, for the building known as 555 Broadway, NY, NY.
- 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.

| | |
|------|---|
| 21 | Subsidiaries of the Registrant. |
| 23 | Consent of Independent Auditors. |
| 27.1 | Financial Data Schedule for the year ended May 31, 1999. |
| 27.2 | Financial Data Schedule restated for the year ended May 31, 1998. |

COPY AS EXECUTED, WITH EXHIBIT D
AND SHEARMAN & STERLING OPINION
AS SEPARATELY EXECUTED

U.S. \$170,000,000

AMENDED AND RESTATED CREDIT AGREEMENT

Dated as of August 11, 1999

Among

SCHOLASTIC CORPORATION
and
SCHOLASTIC INC.

as Borrowers

and

THE INITIAL LENDERS NAMED HEREIN

as Initial Lenders

and

CITIBANK, N.A.

as Administrative Agent

and

SALOMON SMITH BARNEY INC.

as Arranger

and

THE CHASE MANHATTAN BANK
and
FLEET BANK, N.A.

as Syndication Agents

TABLE OF CONTENTS

ARTICLE I

DEFINITIONS AND ACCOUNTING TERMS

| | | |
|---------------|-----------------------------|----|
| SECTION 1.01. | Certain Defined Terms | 1 |
| SECTION 1.02. | Computation of Time Periods | 16 |
| SECTION 1.03. | Accounting Terms | 16 |

ARTICLE II

AMOUNTS AND TERMS OF THE ADVANCES

| | | |
|---------------|---|----|
| SECTION 2.01. | The Revolving Credit Advances | 16 |
| SECTION 2.02. | Making the Revolving Credit Advances | 16 |
| SECTION 2.03. | The Competitive Bid Advances | 18 |
| SECTION 2.04. | Fees | 21 |
| SECTION 2.05. | Optional Termination or Reduction of the Commitments | 21 |
| SECTION 2.06. | Repayment of Revolving Credit Advances and Letter or Credit Advances | 21 |
| SECTION 2.07. | Interest on Revolving Credit Advances and Letter of Credit Advances | 22 |
| SECTION 2.08. | Interest Rate Determination | 22 |
| SECTION 2.09. | Optional Conversion of Revolving Credit Advances | 23 |
| SECTION 2.10. | Prepayments of Revolving Credit Advances | 24 |
| SECTION 2.11. | Increased Costs | 24 |
| SECTION 2.12. | Illegality | 25 |
| SECTION 2.13. | Payments and Computations | 26 |
| SECTION 2.14. | Taxes | 27 |
| SECTION 2.15. | Sharing of Payments, Etc. | 28 |
| SECTION 2.16. | Letters of Credit | 29 |
| SECTION 2.17. | Use of Proceeds | 32 |
| SECTION 2.18. | Increase in the Aggregate Commitments | 32 |
| SECTION 2.19. | Obligations and Communications of the Borrowers | 34 |
| SECTION 2.20. | Subrogation and Contribution | 34 |

ARTICLE III

CONDITIONS TO EFFECTIVENESS AND LENDING

| | | |
|---------------|--|----|
| SECTION 3.01. | Conditions Precedent to Effectiveness of Sections 2.01, 2.03 and 2.16 | 35 |
| SECTION 3.02. | Conditions Precedent to Each Revolving Credit Borrowing, each Issuance and Renewal of Letters of Credit and each Increase Date | 36 |
| SECTION 3.03. | Conditions Precedent to Each Competitive Bid Borrowing | 37 |
| SECTION 3.04. | Determinations Under Section 3.01 | 37 |

ARTICLE IV

ARTICLE V

COVENANTS OF THE BORROWERS

| | | |
|---------------|-----------------------|----|
| SECTION 5.01. | Affirmative Covenants | 40 |
| SECTION 5.02. | Negative Covenants | 43 |
| SECTION 5.03. | Financial Covenants | 45 |

ARTICLE VI

EVENTS OF DEFAULT

| | | |
|---------------|--|----|
| SECTION 6.01. | Events of Default | 45 |
| SECTION 6.02. | Actions in Respect of the Letters of Credit upon Event of Default | 48 |

ARTICLE VII

THE AGENT

| | | |
|---------------|--------------------------|----|
| SECTION 7.01. | Authorization and Action | 48 |
| SECTION 7.02. | Agent's Reliance, Etc. | 49 |
| SECTION 7.03. | Citibank and Affiliates | 49 |
| SECTION 7.04. | Lender Credit Decision | 49 |
| SECTION 7.05. | Indemnification | 49 |
| SECTION 7.06. | Successor Agent | 50 |
| SECTION 7.07. | Other Agents | 51 |

ARTICLE VIII

MISCELLANEOUS

| | | |
|---------------|-----------------------------------|----|
| SECTION 8.01. | Amendments, Etc. | 51 |
| SECTION 8.02. | Notices, Etc. | 51 |
| SECTION 8.03. | No Waiver; Remedies | 52 |
| SECTION 8.04. | Costs and Expenses | 52 |
| SECTION 8.05. | Right of Set-off | 53 |
| SECTION 8.06. | Binding Effect | 53 |
| SECTION 8.07. | Assignments and Participations | 53 |
| SECTION 8.08. | Confidentiality | 56 |
| SECTION 8.09. | No Liability of the Issuing Banks | 56 |
| SECTION 8.10. | Governing Law | 56 |
| SECTION 8.11. | Execution in Counterparts | 57 |
| SECTION 8.12. | Waiver of Jury Trial | 57 |

Schedules

Schedule I - List of Applicable Lending Offices

Schedule 4.01(i) - Subsidiaries

Schedule 5.02(a) - Existing Liens

Exhibits

Exhibit A-1 - Form of Revolving Credit Note

Exhibit A-2 - Form of Competitive Bid Note

Exhibit B-1 - Form of Notice of Revolving Credit 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 Borrowers

Exhibit E - Form of Financial Covenants Compliance Certificate

AMENDED AND RESTATED CREDIT AGREEMENT

Dated as of August 11, 1999

This AMENDED AND RESTATED CREDIT AGREEMENT is by and among SCHOLASTIC CORPORATION, a Delaware corporation (the "Holding Company"), and SCHOLASTIC INC., a New York corporation (the "Operating Company"; the Holding Company and the Operating Company are, collectively, the "Borrowers" and, individually, each a "Borrower"), the banks, financial institutions and other institutional lenders (the "Initial Lenders") listed on the signature pages hereof, SALOMON SMITH BARNEY INC., as arranger, THE CHASE MANHATTAN BANK and FLEET BANK, N.A., as syndication agents, and CITIBANK, N.A. ("Citibank"), as administrative agent (the "Agent") for the Lenders (as hereinafter defined):

PRELIMINARY STATEMENTS:

(1) The Borrowers entered into an Amended and Restated Loan Agreement dated as of April 11, 1995 (as amended to date, the "Original Loan Agreement"), with the banks referred to therein and their respective assignees (the "Original Banks") and the Agent. The Borrowers have requested that the Original Banks enter into this Agreement to amend and restate the Original Loan Agreement. The Original Banks have indicated their willingness to amend and restate the Original Loan Agreement on the terms and conditions set forth in this Agreement.

(2) The Borrowers have requested that the Lenders (as hereinafter defined) make advances to them from time to time on the terms and conditions set forth in this Agreement in an aggregate principal amount outstanding at any one time not to exceed \$170,000,000 (subject to increase pursuant to Section 2.18 hereof), the proceeds of which may be used for the general corporate purposes of the Borrowers and to backstop letters of credit and commercial paper of the Borrowers. The obligations of the Borrowers under the facility are to be joint and several.

(3) Accordingly, the Borrowers, the Lenders and the Agent have entered into this Agreement in order to provide for (among other things) the making and repayment of the Advances and the documentation of the various representations of and agreements with the Borrowers, all upon the terms and provisions and subject to the conditions hereinafter set forth.

NOW, THEREFORE, in consideration of the premises and of the mutual covenants and agreements contained herein, the parties hereto hereby agree to amend and restate the Original Loan Agreement as follows:

ARTICLE I

DEFINITIONS AND ACCOUNTING TERMS

SECTION 1.01. Certain Defined Terms. As used in this Agreement, the following terms shall have the following meanings (such meanings to be equally applicable to both the singular and plural forms of the terms defined):

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

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

"Agent's Account" means 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 | 0.325% |
| Level 2 Lower than Level 1 but at least BBB+/Baa1 | 0.375% |
| Level 3 Lower than Level 2 but at least BBB/Baa2 | 0.475% |
| Level 4 Lower than Level 3 but at least BBB-/Baa3 | 0.675% |
| Level 5 Lower than Level 4 | 0.900% |

"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 | 0.100% |
| Level 2 Lower than Level 1 but at least BBB+/Baa1 | 0.125% |
| Level 3 Lower than Level 2 but at least BBB/Baa2 | 0.150% |
| Level 4 Lower than Level 3 but at least BBB-/Baa3 | 0.200% |
| Level 5 Lower than Level 4 | 0.300% |

"Applicable Utilization Fee" means, as of any date on which the aggregate principal amount of the Advances exceeds 33% of the Revolving Credit Facility, 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 Utilization Fee |
|--|-------------------------------|
| Level 1 A-/A3 or above | 0.050% |
| Level 2 Lower than Level 1 but at least BBB+/Baa1 | 0.075% |
| Level 3 Lower than Level 2 but at least BBB/Baa2 | 0.075% |
| Level 4 Lower than Level 3 but at least BBB-/Baa3 | 0.125% |
| Level 5 Lower than Level 4 | 0.150% |

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

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

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

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

"Base Rate" means 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 Revolving Credit Advance that bears interest as provided in Section 2.07(a)(i).

"Borrowing" means a Revolving Credit 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.

"Commitment" means a Revolving Credit Commitment or a Letter of Credit Commitment.

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

"Commitment Increase" has the meaning specified in Section 2.18(a).

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

"Competitive Bid Borrowing" means a borrowing consisting of simultaneous Competitive Bid Advances from each of the Lenders whose offer to make one or more Competitive Bid Advances as part of such borrowing has been accepted under the competitive bidding procedure described in Section 2.03.

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

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

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

"Consolidated Debt Ratio" shall mean, 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 Borrowers, (ii) consolidated long-term debt of the Borrowers, (iii) the aggregate value of stockholders' equity (as set forth in the most current consolidated balance sheet of the Holding Company), and (iv) the aggregate value of all preferred stock (as set forth in the most current consolidated balance sheet of the Holding Company).

"Consolidated Interest Coverage Ratio" shall mean, for any period of the most recent four consecutive fiscal quarters of the Borrowers and their Subsidiaries ending on or before any date of determination, the ratio of (a) the sum of (i) net income (or net loss), (ii) any extraordinary non-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 Revolving Credit Advances of one Type into Revolving Credit 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.

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

"Documentary Letter of Credit" means any Letter of Credit that is issued under the Letter of Credit Facility for the benefit of a supplier of inventory to any Borrower or any of its Subsidiaries to effect payment for such inventory, the conditions to drawing under which include the presentation to the Issuing Bank that issued such Letter of Credit of negotiable bills of lading, invoices and related documents sufficient, in the judgment of such Issuing Bank, to create a valid and perfected lien on or security interest in such inventory, bills of lading, invoices and related documents in favor of such Issuing Bank.

"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 Assumption Agreement or 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 Borrowers and the Agent.

"Effective Date" has the meaning specified in Section 3.01.

"Eligible Assignee" means (a) with respect to the Revolving Credit Facility, (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; and (b) with respect to the

Letter of Credit Facility, any Person approved by the Agent and the Borrowers, such approval not to be unreasonably withheld or delayed; provided, however, that neither Borrower nor an Affiliate of a Borrower shall qualify as an Eligible Assignee.

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

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

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

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

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

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

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

"Eurodollar Lending Office" means, with respect to any Lender, the office of such Lender specified as its "Eurodollar Lending Office" opposite its name on Schedule I hereto or in the Assumption Agreement 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 Borrowers and the Agent.

"Eurodollar Rate" means, for any Interest Period for each Eurodollar Rate Advance comprising part of the same Revolving Credit 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 Dow Jones Markets Telerate 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 Revolving Credit 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 Revolving Credit 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 Revolving Credit 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.

"Facility" means the Revolving Credit Facility or the Letter of Credit Facility.

"Federal Funds Rate" means, for any period, a fluctuating interest rate per annum equal for each day during such period to the weighted average 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.

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

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

"Information Memorandum" means the information memorandum dated July 16, 1999 used by the Agent in connection with the syndication of the Commitments.

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

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

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

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

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

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

"Issuing Bank" means any Lender that has a Letter of Credit Commitment set forth opposite its name on Schedule I hereto, any other Lender approved as an Issuing Bank by the Agent and the Borrowers (such approval not to be unreasonably withheld or delayed) and each Eligible Assignee to which a Letter of Credit Commitment hereunder has been assigned pursuant to Section 8.07 so long as each such Lender or Eligible Assignee expressly agrees to perform in

accordance with their terms all of the obligations that by the terms of this Agreement are required to be performed by it as an Issuing Bank and notifies the Agent of its Applicable Lending Office and the amount of its Letter of Credit Commitment (which information shall be recorded by the Agent in the Register).

"L/C Related Documents" has the meaning specified in Section 2.16(e).

"Lenders" means the Initial Lenders, each Assuming Lender that shall become a party hereto pursuant to Section 2.18 and each Person that shall become a party hereto pursuant to Section 8.07.

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

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

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

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

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

"Letter of Credit Commitment" means, with respect to any Issuing Bank at any time, the amount set forth opposite such Issuing Bank's name on Schedule I hereto under the caption "Letter of Credit Commitment" or, if such Issuing Bank has entered into one or more Assignments and Acceptances or if a Lender has otherwise become an Issuing Bank, set forth for such Issuing Bank in the Register maintained by the Agent pursuant to Section 8.07(f) as such Issuing Bank's "Letter of Credit Commitment", as such amount may be reduced at or prior to such time pursuant to Section 2.05.

"Letter of Credit Facility" means, at any time, an amount equal to the lesser of (a) the aggregate amount of the Issuing Banks' Letter of Credit Commitments and (b) \$10,000,000, as such amount may be reduced at or prior to such time pursuant to Section 2.05.

"Letter of Credit Obligations" means, at any time, the sum of (a) the maximum aggregate amount then available to be drawn under the Letters of Credit outstanding at such time (the determination of such maximum amount to assume the occurrence of, and compliance with, all conditions for drawing referred to therein) plus (b) the aggregate amount of the Borrowers' Obligations then outstanding under the Loan Documents in respect of the Letters of Credit, including all Advances resulting from drawings under Letters of Credit and all fees and expenses in respect of the Letters of Credit payable pursuant to Section 2.16(f).

"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 Dow Jones Markets Telerate 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 Revolving Credit 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 Telerate 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.

"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, the Notes and each Letter of Credit Agreement, as each may be amended, supplemented or otherwise modified from time to time.

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

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

"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 a Borrower or any ERISA Affiliate is making or accruing an obligation to make contributions, or has within any of the preceding five plan years made or accrued an obligation to make contributions.

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

"Note" means a Revolving Credit Note or a Competitive Bid Note.

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

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

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

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

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

"Original Banks" has the meaning specified in the Preliminary Statements.

"Original Loan Agreement" has the meaning specified in the Preliminary Statements.

"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.

"Pro Rata Share" of any amount means, with respect to any Lender at any time, the product of such amount times a fraction the numerator of which is the amount of such Lender's Revolving Credit Commitment at such time and the denominator of which is the Revolving Credit Facility at such time.

"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, the Applicable Percentage and Applicable Utilization Fee 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, the Applicable Percentage and Applicable Utilization Fee will be set in accordance with Level 5 under the definition of "Applicable Margin", "Applicable Percentage" or "Applicable Utilization Fee", as the case may be; (c) if the ratings established by S&P and Moody's shall fall within different levels, the Applicable Margin, the Applicable Percentage and Applicable Utilization Fee 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.

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

"Required Lenders" means at any time Lenders owed or holding at least a majority in interest of the sum of (a) the then aggregate unpaid principal amount of the Revolving Credit Advances and Letter of Credit Advances owing to Lenders at such time, (b) the aggregate Available Amount of all Letters of Credit outstanding at such time and (c) the aggregate Unused Revolving Credit Commitments at such time.

"Revolving Credit Advance" means an advance by a Lender to a Borrower as part of a Revolving Credit Borrowing and refers to a Base Rate Advance or a Eurodollar Rate Advance (each of which shall be a "Type" of Revolving Credit Advance).

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

"Revolving Credit Commitment" means, with respect to any Lender at any time (a) the amount set forth opposite such Lender's name on Schedule I hereto under the caption "Revolving Credit Commitment" (b) if such Lender has become a Lender hereunder pursuant to an Assumption Agreement, the amount set forth in such Assumption Agreement or (c) if such Lender has entered into any Assignment and Acceptance, the amount set forth for such Lender in the Register maintained by the Agent pursuant to Section 8.07(f), as such amount may be reduced pursuant to Section 2.05 or increased pursuant to Section 2.18.

"Revolving Credit Facility" means, at any time, the aggregate amount of the Lenders' Revolving Credit Commitments at such time.

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

"Robinson Family" means Richard Robinson, Barbara Robinson Buckland, Florence R Ford, Mary Sue Robinson Morrill and William W. Robinson, the spouses and descendants of any of them, and any trust or estate whose legal representatives (or 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 a Borrower or any ERISA Affiliate and no Person other than the Borrowers and the ERISA Affiliates or (b) was so maintained and in respect

of which a Borrower or any ERISA Affiliate could have liability under Section 4069 of ERISA in the event such plan has been or were to be terminated.

"Standby Letter of Credit" means any Letter of Credit issued under the Letter of Credit Facility, other than a Documentary Letter of Credit.

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

"Termination Date" means the earlier of August 11, 2004 and the date of termination in whole of the Revolving Credit Commitments and the Letter of Credit Commitments pursuant to Section 2.05 or 6.01.

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

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

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

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

SECTION 1.03. Accounting Terms. All accounting terms not specifically defined herein shall be construed in accordance with generally accepted accounting principles 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 Revolving Credit Advances. Each Lender severally agrees, on the terms and conditions hereinafter set forth, to make Revolving Credit Advances to any Borrower from time to time on any Business Day during the period from the Effective Date until the Termination Date in an amount for each such Advance not to exceed such Lender's Unused Revolving Credit Commitment at such time. Each Revolving Credit 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 Revolving Credit 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 Borrowers 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 Revolving Credit Advances. (a) Each Revolving Credit 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 Revolving Credit Borrowing in the case of a Revolving Credit Borrowing consisting of Eurodollar Rate Advances or (y) 11:00 A.M. (New York City time) on the date of the proposed Revolving Credit Borrowing in the case of a Revolving Credit Borrowing consisting of Base Rate Advances, by the applicable Borrower to the Agent, which shall give to each Lender prompt notice thereof by telecopier or telex. Each such notice of a Revolving Credit Borrowing (a "Notice of Revolving Credit 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 Revolving Credit Borrowing, (ii) Type of Advances comprising such Revolving Credit Borrowing, (iii) aggregate amount of such Revolving Credit Borrowing, and (iv) in the case of a Revolving Credit Borrowing consisting of Eurodollar Rate Advances, initial Interest Period for each such Revolving Credit Advance. Each Lender shall, before 2:00 P.M. (New York City time) on the date of such Revolving Credit Borrowing make available for the account of its Applicable Lending Office to the Agent at the Agent's Account, in same day funds, such Lender's ratable portion of such Revolving Credit Borrowing. After the Agent's receipt of such funds and upon fulfillment of the applicable conditions set forth in Article III, the Agent will make such funds available to the applicable Borrower at the Agent's address referred to in Section 8.02; provided, however, that, in the case of any such Borrowing, the Agent shall first make a portion of such funds equal to the aggregate principal amount of any Letter of Credit Advances made by any Issuing Bank and by any other Lender and outstanding on the date of such Revolving Credit Borrowing, plus interest accrued and unpaid thereon to and as of such date, available to such Issuing Bank and such other Lenders for repayment of such Letter of Credit Advances.

(b) Anything in subsection (a) above to the contrary notwithstanding, (i) the Borrowers may not select Eurodollar Rate Advances for any Revolving Credit Borrowing if the aggregate amount of such Revolving Credit 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 Revolving Credit Borrowings.

(c) Each Notice of Revolving Credit Borrowing shall be irrevocable and binding on the applicable Borrower. In the case of any Revolving Credit Borrowing that the related Notice of Revolving Credit Borrowing specifies is to be comprised of Eurodollar Rate Advances, the applicable Borrower shall indemnify each Lender against any loss, cost or expense incurred by such Lender as a result of any failure to fulfill on or before the date specified in such Notice of Revolving Credit Borrowing for such Revolving Credit Borrowing the applicable conditions set forth in Article III, including, without limitation, any loss (including loss of anticipated profits), cost or expense incurred by reason of the liquidation or reemployment of deposits or other funds acquired by such Lender to fund the Revolving Credit Advance to be made by such Lender as part of such Revolving Credit Borrowing when such Revolving Credit 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 Revolving Credit Borrowing that such Lender will not make available to the Agent such Lender's ratable portion of such Revolving Credit Borrowing, the Agent may assume that such Lender has made such portion available to the Agent on the date of such Revolving Credit Borrowing in accordance with subsection (a) of this Section 2.02 and the Agent may, in reliance upon such assumption, make available to the applicable Borrower on such date a corresponding amount. If and to the extent that such Lender shall not have so made such ratable portion available to the Agent, such Lender and the applicable Borrower severally agree to repay to the Agent forthwith on demand such corresponding amount together with interest thereon, for each day from the date such amount is made available to such Borrower until the date such amount is repaid to the Agent, at (i) in the case of such Borrower, the interest rate applicable at the time to Revolving Credit Advances comprising such Revolving Credit Borrowing and (ii) in the case of such Lender, the Federal Funds Rate. If such Lender shall repay to the Agent such corresponding amount, such amount so repaid shall constitute such Lender's Revolving Credit Advance as part of such Revolving Credit Borrowing for purposes of this Agreement.

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

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

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

(ii) Each Lender may, if, in its sole discretion, it elects to do so, irrevocably offer to make one or more Competitive Bid Advances to such Borrower as part of such proposed Competitive Bid Borrowing at a rate or rates of interest specified by such Lender in its sole discretion, by notifying the Agent (which shall give prompt notice thereof to such Borrower), (A) before 9:30 A.M. (New York City time) on the date of such proposed Competitive Bid Borrowing, in the case of a Competitive Bid Borrowing consisting of Fixed Rate Advances and (B) before 10:00 A.M. (New York City time) three Business Days before the date of such proposed Competitive Bid Borrowing, in the case of a Competitive Bid Borrowing consisting of LIBO Rate Advances of the minimum amount and maximum amount of each Competitive Bid Advance which such Lender would be willing to make as part of such proposed Competitive Bid Borrowing (which amounts of such proposed Competitive Bid may, subject to the proviso to the first sentence of this Section 2.03(a), exceed such Lender's Commitment, if any), the rate or rates of interest therefor and such Lender's Applicable Lending Office with respect to such Competitive Bid Advance; provided that if the Agent in its capacity as a Lender shall, in its sole discretion, elect to make any such offer, it shall notify such Borrower of such offer at least 30 minutes before the time and on the date on which notice of such election is to be given to the Agent, by the other Lenders. If any Lender shall elect not to make such an offer, such Lender shall so notify the Agent before 10:00 A.M. (New York City time), and such Lender shall not be obligated to, and shall not, make any Competitive Bid Advance as part of such Competitive Bid Borrowing; provided that the failure by any Lender to give such notice shall not cause such Lender to be obligated to make any Competitive Bid Advance as part of such proposed Competitive Bid Borrowing.

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

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

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

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

(v) If such Borrower accepts one or more of the offers made by any Lender or Lenders pursuant to paragraph (iii)(y) above, the Agent shall in turn promptly notify (A) each

Lender that has made an offer as described in paragraph (ii) above, of the date and aggregate amount of such Competitive Bid Borrowing and whether or not any offer or offers made by such Lender pursuant to paragraph (ii) above have been accepted by such Borrower, (B) each Lender that is to make a Competitive Bid Advance as part of such Competitive Bid Borrowing, of the amount of each Competitive Bid Advance to be made by such Lender as part of such Competitive Bid Borrowing, and (C) each Lender that is to make a Competitive Bid Advance as part of such Competitive Bid Borrowing, upon receipt, that the Agent has received forms of documents appearing to fulfill the applicable conditions set forth in Article III. Each Lender that is to make a Competitive Bid Advance as part of such Competitive Bid Borrowing shall, before 11:00 A.M. (New York City time) on the date of such Competitive Bid Borrowing specified in the notice received from the Agent pursuant to clause (A) of the preceding sentence or any later time when such Lender shall have received notice from the Agent pursuant to clause (C) of the preceding sentence, make available for the account of its Applicable Lending Office to the Agent at its address referred to in Section 8.02, in same day funds, such Lender's portion of such Competitive Bid Borrowing. Upon fulfillment of the applicable conditions set forth in Article III and after receipt by the Agent of such funds, the Agent will make such funds available to such Borrower at the location specified by such Borrower in its Notice of Competitive Bid Borrowing. Promptly after each Competitive Bid Borrowing the Agent will notify each Lender of the amount of the Competitive Bid Borrowing and the dates upon which such Competitive Bid Borrowing commenced and will terminate.

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

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

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

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

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

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

SECTION 2.04. Fees. (a) Facility Fee. The Borrowers, jointly and severally, agree to pay to the Agent for the account of each Lender a facility fee on the aggregate amount of such Lender's Commitment from the date hereof in the case of each Initial Lender and from the effective date specified in the Assumption Agreement or in the Assignment and Acceptance pursuant to which it became a Lender in the case of each other Lender until the Termination Date at a rate per annum equal to the Applicable 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, 1999, and on the Termination Date.

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

SECTION 2.05. Optional Termination or Reduction of the Commitments. The Borrowers shall have the right, upon at least five Business Days' notice to the Agent, to terminate in whole or reduce ratably in part the unused portions of the Letter of Credit Facility and the Unused Revolving Credit Commitments, provided that each partial reduction shall be in the aggregate amount of \$5,000,000 or an integral multiple of \$1,000,000 in excess thereof. The Letter of Credit Facility shall be permanently reduced from time to time on the date of each reduction in the Revolving Credit Facility by the amount, if any, by which the Letter of Credit Facility exceeds the Revolving Credit Facility after giving effect to such reduction of the Revolving Credit Facility.

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

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

SECTION 2.07. Interest on Revolving Credit Advances and Letter of Credit Advances. (a) Scheduled Interest. The Borrowers shall pay interest on the unpaid principal amount of each

Revolving Credit Advance and each Letter of Credit Advance owing to each Lender from the date of such Advance until such principal amount shall be paid in full, at the following rates per annum:

(i) Base Rate Advances. During such periods as such Advance is a Base Rate Advance, a rate per annum equal at all times to the sum of (x) the Base Rate in effect from time to time plus (y) the Applicable Margin in effect from time to time plus (z) the Applicable Utilization Fee 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 plus (z) the Applicable Utilization Fee 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 Borrowers shall pay interest on the unpaid principal amount of each Revolving Credit Advance and each Letter of Credit 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 Borrowers and the Lenders of the applicable interest rate determined by the Agent for purposes of Section 2.07(a)(i) or (ii).

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

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

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

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

(f) If Dow Jones Markets Telerate 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 Borrowers and the Lenders that the interest rate cannot be determined for such Eurodollar Rate Advances or LIBO Rate Advances, as the case may be,

(ii) with respect to Eurodollar Rate Advances, each such Advance will automatically, on the last day of the then existing Interest Period therefor, be prepaid by the Borrowers or be automatically Converted into a Base Rate Advance (or if such Advance is then a Base Rate Advance, will continue as a Base Rate Advance), and

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

SECTION 2.09. Optional Conversion of Revolving Credit Advances. Each Borrower may on any Business Day, upon notice given to the Agent not later than 11:00 A.M. (New York City time) on the second Business Day prior to the date of the proposed Conversion and subject to the provisions of Sections 2.08 and 2.12, Convert Revolving Credit Advances of one Type comprising the same Borrowing made to such Borrower into Revolving Credit 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 Revolving Credit Advances shall result in more separate Revolving Credit 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 Revolving Credit 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 applicable Borrower.

SECTION 2.10. Prepayments of Revolving Credit Advances. (a) Optional. Each 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 such Borrower shall, prepay the outstanding principal amount of the Revolving Credit Advances comprising part of the same Revolving Credit Borrowing made to such Borrower in whole or ratably in part, together with accrued interest to the date of such prepayment on the principal amount prepaid; provided, however, that (x) each partial prepayment shall be in an aggregate principal amount of \$1,000,000 or an integral multiple of \$500,000 in excess thereof in the case of Base Rate Advances and in an aggregate principal amount of \$5,000,000 or an integral multiple of \$1,000,000 in excess thereof in the case of Eurodollar Rate Advances and (y) in the event of any such prepayment of a Eurodollar Rate Advance, such Borrower shall be obligated to reimburse the Lenders in respect thereof pursuant to Section 8.04(c).

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

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

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

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

(b) If any Lender determines that compliance with any law or regulation or any guideline or request from any central bank or other governmental authority (whether or not having the force of law) affects or would affect the amount of capital required or expected to be maintained by such Lender or any corporation controlling such Lender and that the amount of such capital is increased by or based upon the existence of such Lender's commitment to lend or to issued Letters of Credit hereunder and other commitments of this type or the issuance or maintenance of the Letters of Credit, then, upon demand by such Lender (with a copy of such demand to the Agent), the Borrowers shall pay to the Agent for the account of such Lender, from time to time as specified by such Lender, additional amounts sufficient to compensate such Lender or such corporation in the light of such circumstances, to the extent that such Lender reasonably determines such increase in capital to be allocable to the existence of such Lender's commitment to lend or to issue Letters of Credit hereunder or the issuance or maintenance of the

Letters of Credit (or other similar contingent obligations). A certificate in reasonable detail summarizing the basis for and calculating such amounts submitted to the Borrowers and the Agent by such Lender shall be prima facie evidence of the amount claimed so long as any underlying determinations and allocations are made on a reasonable basis; provided, however, that no Lender shall be required to disclose in any such certificate any confidential proprietary information.

SECTION 2.12. Illegality. Notwithstanding any other provision of this Agreement, if any Lender shall notify the Agent that the introduction of or any change in or in the interpretation of any law or regulation makes it unlawful, or any central bank or other governmental authority asserts that it is unlawful, for any Lender or its Eurodollar Lending Office to perform its obligations hereunder to make Eurodollar Rate Advances or to fund or maintain Eurodollar Rate Advances hereunder, (a) each Eurodollar Rate Advance will automatically, upon such demand, Convert into a Base Rate Advance and (b) the obligation of the Lenders to make Eurodollar Rate Advances or LIBO Rate Advances or to Convert Revolving Credit Advances into Eurodollar Rate Advances shall be suspended until the Agent shall notify the Borrowers and the Lenders that the circumstances causing such suspension no longer exist; provided, however, that before making any such demand, each Lender agrees to use reasonable efforts (consistent with its internal policy and legal and regulatory restrictions) to designate a different Eurodollar Lending Office if the making of such a designation would allow such Lender or its Eurodollar Lending Office to continue to perform its obligations to make Eurodollar Rate Advances or to continue to fund or maintain Eurodollar Rate Advances and would not, in the judgment of such Lender, be otherwise disadvantageous to such Lender.

SECTION 2.13. Payments and Computations. (a) The Borrowers shall make each payment hereunder not later than 11:00 A.M. (New York City time) on the day when due to the Agent at the Agent's Account in same day funds. 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 8.04(c)) to the Lenders for the account of their respective Applicable Lending Offices, and like funds relating to the payment of any other amount payable to any Lender to such Lender for the account of its Applicable Lending Office, in each case to be applied in accordance with the terms of this Agreement. Upon any Assuming Lender becoming a Lender hereunder as a result of a Commitment Increase pursuant to Section 2.18, and upon the Agent's receipt of such Lender's Assumption Agreement and recording of the information contained therein in the Register, from and after the applicable Increase Date, the Agent shall make all payments hereunder and under any Notes issued in connection therewith in respect of the interest assumed thereby to the Assuming Lender. Upon its acceptance of an Assignment and Acceptance and recording of the information contained therein in the Register pursuant to Section 8.07(c), from and after the effective date specified in such Assignment and Acceptance, the Agent shall make all payments hereunder and under 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) Each 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 such 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, facility fees and Letter of Credit commissions 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 applicable Borrower prior to the date on which any payment is due to the Lenders hereunder that such Borrower will not make such payment in full, the Agent may assume that such Borrower has made such payment in full to the Agent on such date and the Agent may, in reliance upon such assumption, cause to be distributed to each Lender on such due date an amount equal to the amount then due such Lender. If and to the extent the applicable Borrower shall not have so made such payment in full to the Agent, each Lender shall repay to the Agent forthwith on demand such amount distributed to such Lender together with interest thereon, for each day from the date such amount is distributed to such Lender until the date such Lender repays such amount to the Agent, at the Federal Funds Rate.

SECTION 2.14. Taxes. (a) Any and all payments by the Borrowers hereunder or under 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 Borrowers shall be required by law to deduct any Taxes from or in respect of any sum payable hereunder or under any Note to any Lender or the Agent, (i) the sum payable shall be increased as may be necessary so that after making all required deductions (including deductions applicable to additional sums payable under this Section 2.14) such Lender or the Agent (as the case may be) receives an amount equal to the sum it would have received had no such deductions been made, (ii) the Borrowers shall make such deductions and (iii) the Borrowers shall pay the full amount deducted to the relevant taxation authority or other authority in accordance with applicable law.

(b) In addition, the Borrowers shall pay any present or future stamp or documentary taxes or any other excise or property taxes, charges or similar levies that arise from any payment made hereunder or under 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 Borrowers shall indemnify each Lender and the Agent for and hold it harmless against the full amount of Taxes or Other Taxes (including, without limitation, taxes of any kind imposed by any jurisdiction on amounts payable under this Section 2.14) imposed on or paid by such Lender or the Agent (as the case may be) and any liability (including penalties, interest and expenses) arising therefrom or with respect thereto. This indemnification shall be made within 30 days from the date such Lender or the Agent (as the case may be) makes written demand therefor.

(d) Within 30 days after the date of any payment of Taxes, the Borrowers shall furnish to the Agent, at its address referred to in Section 8.02, the original or a certified copy of a receipt

evidencing such payment. In the case of any payment hereunder or under the Notes by or on behalf of the Borrowers through an account or branch outside the United States or by or on behalf of the Borrowers by a payor that is not a United States person, if the Borrowers determine that no Taxes are payable in respect thereof, the Borrowers shall furnish, or shall cause such payor to furnish, to the Agent, at such address, an opinion of counsel acceptable to the Agent stating that such payment is exempt from Taxes. For purposes of this subsection (d) and subsection (e), the terms "United States" and "United States person" shall have the meanings specified in Section 7701 of the Internal Revenue Code.

(e) Each Lender organized under the laws of a jurisdiction outside the United States, on or prior to the date of its execution and delivery of this Agreement in the case of each Initial Lender and on the date of the Assumption Agreement or the Assignment and Acceptance pursuant to which it becomes a Lender in the case of each other Lender, and from time to time thereafter as requested in writing by the Borrowers (but only so long as such Lender remains lawfully able to do so), shall provide each of the Agent and the Borrowers with two original Internal Revenue Service forms 1001 or 4224, 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 Borrowers with a valid form 1001 or 4224 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 Borrowers and shall not be obligated to include in such form or document such confidential information.

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

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

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

amount of such Lender's required repayment to (ii) the total amount so recovered from the purchasing Lender) of any interest or other amount paid or payable by the purchasing Lender in respect of the total amount so recovered. The Borrowers agree that any Lender so purchasing a participation from another Lender pursuant to this Section 2.15 may, to the fullest extent permitted by law, exercise all its rights of payment (including the right of set-off) with respect to such participation as fully as if such Lender were the direct creditor of the respective Borrowers in the amount of such participation.

SECTION 2.16. Letters of Credit. (a) The Letter of Credit Facility. Each Issuing Bank severally agrees, on the terms and conditions hereinafter set forth, to issue letters of credit (together with the Existing Letters of Credit, the "Letters of Credit") for the account of any Borrower from time to time on any Business Day during the period from the date hereof until 10 days before the Termination Date (i) in an aggregate Available Amount for all Letters of Credit issued by such Issuing Bank not to exceed at any time the lesser of (x) the Letter of Credit Facility at such time and (y) such Issuing Bank's Letter of Credit Commitment and (ii) in an Available Amount for each such Letter of Credit not to exceed an amount equal to an amount equal to the Unused Revolving Credit Commitments of the Lenders at such time. No Letter of Credit shall have an expiration date (including all rights of the applicable Borrower or the beneficiary to require renewal) later than the earlier of (A) 10 days before the Termination Date and (B) (1) in the case of a Standby Letter of Credit, one year after the date of issuance thereof (but such Standby Letter of Credit may by its terms be automatically renewable annually upon notice (a "Notice of Renewal") given to the Issuing Bank that issued such Standby Letter of Credit and the Agent on or prior to any date for notice of renewal set forth in such Letter of Credit but in any event at least three Business Days prior to the date of the proposed renewal of such Standby Letter of Credit and upon fulfillment of the applicable conditions set forth in Article III unless such Issuing Bank has notified the Borrowers (with a copy to the Agent) on or prior to the date for notice of termination set forth in such Letter of Credit but in any event at least 30 Business Days prior to the date of automatic renewal of its election not to renew such Standby Letter of Credit (a "Notice of Termination")) and (2) in the case of a Documentary Letter of Credit, one year after the date of issuance thereof; provided that the terms of each Standby Letter of Credit that is automatically renewable annually shall (x) require the Issuing Bank that issued such Standby Letter of Credit to give the beneficiary named in such Standby Letter of Credit notice of any Notice of Termination, (y) permit such beneficiary, upon receipt of such notice, to draw under such Standby Letter of Credit prior to the date such Standby Letter of Credit otherwise would have been automatically renewed and (z) not permit the expiration date (after giving effect to any renewal) of such Standby Letter of Credit in any event to be extended to a date after the dates referred to in clause (A) above. If either a Notice of Renewal is not given by the applicable Borrower or a Notice of Termination is given by the relevant Issuing Bank pursuant to the immediately preceding sentence, such Standby Letter of Credit shall expire on the date on which it otherwise would have been automatically renewed; provided, however, that even in the absence of receipt of a Notice of Renewal the relevant Issuing Bank may in its discretion, unless instructed to the contrary by the Agent or the applicable Borrower, deem that a Notice of Renewal had been timely delivered and in such case, a Notice of Renewal shall be deemed to have been so delivered for all purposes under this Agreement. Each Standby Letter of Credit shall contain a provision authorizing the Issuing Bank that issued such Letter of Credit to deliver to the beneficiary of such Letter of Credit, upon the occurrence and during the continuance of an Event of Default, a notice (a "Default Termination Notice") terminating such Letter of Credit and giving such beneficiary 15 days to draw such Letter of Credit. Within the limits of the Letter of Credit Facility, and subject to the limits referred to above, the Borrowers may request the issuance of Letters of Credit under this Section 2.16(a), repay any Letter of Credit Advances resulting from drawings thereunder pursuant to Section 2.16(c) and request the issuance of additional Letters of Credit under this Section 2.16(a).

(b) Request for Issuance. (i) Each Letter of Credit shall be issued upon notice, given not later than 11:00 A.M. (New York City time) on the second Business Day prior to the date of the proposed issuance of such Letter of Credit, by any Borrower to any Issuing Bank, which shall give to the Agent and each Lender prompt notice thereof by telex or telecopier). Each such notice of issuance of a

Letter of Credit (a "Notice of Issuance") shall be by telephone, confirmed immediately in writing, or telex or telecopier, specifying therein the requested (A) date of such issuance (which shall be a Business Day), (B) Available Amount of such Letter of Credit, (C) expiration date of such Letter of Credit, (D) name and address of the beneficiary of such Letter of Credit and (E) form of such Letter of Credit, and shall be accompanied by such application and agreement for letter of credit as such Issuing Bank may specify to such Borrower for use in connection with such requested Letter of Credit (in each case, a "Letter of Credit Agreement"). If (x) the requested form of such Letter of Credit is reasonably acceptable to such Issuing Bank in its sole discretion and (y) it has not received notice of objection to such issuance from the Required Lenders, such Issuing Bank will, upon fulfillment of the applicable conditions set forth in Article III, make such Letter of Credit available to the applicable Borrower at its office referred to in Section 8.02 or as otherwise agreed with such Borrower in connection with such issuance. In the event and to the extent that the provisions of any Letter of Credit Agreement shall conflict with this Agreement, the provisions of this Agreement shall govern.

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

(c) Drawing and Reimbursement. The payment by any Issuing Bank of a draft drawn under any Letter of Credit shall constitute for all purposes of this Agreement the making by such Issuing Bank of a Letter of Credit Advance, which shall be a Base Rate Advance, in the amount of such draft. Upon written demand by any Issuing Bank with an outstanding Letter of Credit Advance, with a copy of such demand to the Agent, each Lender shall purchase from such Issuing Bank, and such Issuing Bank shall sell and assign to each such Lender, such Lender's Pro Rata Share of such outstanding Letter of Credit Advance as of the date of such purchase, by making available for the account of its Applicable Lending Office to the Agent for the account of such Issuing Bank, by deposit to the Agent's Account, in same day funds, an amount equal to the portion of the outstanding principal amount of such Letter of Credit Advance to be purchased by such Lender. Promptly after receipt thereof, the Agent shall transfer such funds to such Issuing Bank. Each Borrower hereby agrees to each such sale and assignment. Each Lender agrees to purchase its Pro Rata Share of an outstanding Letter of Credit Advance on (i) the Business Day on which demand therefor is made by the Issuing Bank which made such Advance, provided notice of such demand is given not later than 11:00 A.M. (New York City time) on such Business Day or (ii) the first Business Day next succeeding such demand if notice of such demand is given after such time. Upon any such assignment by an Issuing Bank to any Lender of a portion of a Letter of Credit Advance, such Issuing Bank represents and warrants to such Lender that such Issuing Bank is the legal and beneficial owner of such interest being assigned by it, free and clear of any liens, but makes no other representation or warranty and assumes no responsibility with respect to such Letter of Credit Advance, the Loan Documents or any Borrower. If and to the extent that any Lender shall not have so made the amount of such Letter of Credit Advance available to the Agent, such Lender agrees to pay to the Agent forthwith on demand such amount together with interest thereon, for each day from the date of demand by such Issuing Bank until the date such amount is paid to the Agent, at the Federal Funds Rate for its account or the account of such Issuing Bank, as applicable. If such Lender shall pay to the Agent such amount for the account of such Issuing Bank on any Business Day, such amount so paid in respect of principal shall constitute a Letter of Credit Advance made by such Lender on such Business Day for purposes of this Agreement, and the outstanding principal amount of the Letter of Credit Advance made by such Issuing Bank shall be reduced by such amount on such Business Day.

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

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

(i) any lack of validity or enforceability of this Agreement, any Note, any Letter of Credit Agreement, any Letter of Credit or any other agreement or instrument relating thereto (all of the foregoing being, collectively, the "L/C Related Documents");

(ii) any change in the time, manner or place of payment of, or in any other term of, all or any of the obligations of any Borrower in respect of any L/C Related Document or any other amendment or waiver of or any consent to departure from all or any of the L/C Related Documents;

(iii) the existence of any claim, set-off, defense or other right that any Borrower may have at any time against any beneficiary or any transferee of a Letter of Credit (or any Persons for whom any such beneficiary or any such transferee may be acting), any Issuing Bank or any other Person, whether in connection with the transactions contemplated by the L/C Related Documents or any unrelated transaction;

(iv) any statement or any other document presented under a Letter of Credit proving to be forged, fraudulent, invalid or insufficient in any respect or any statement therein being untrue or inaccurate in any respect;

(v) payment by any Issuing Bank under a Letter of Credit against presentation of a draft or certificate that does not strictly comply with the terms of such Letter of Credit, unless such draft or certificate is substantially different from the applicable form specified by such Letter of Credit;

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

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

(f) Compensation. (i) The Borrowers shall pay to the Agent for the account of each Lender a commission on such Lender's Pro Rata Share of the average daily aggregate Available Amount of (A) all Standby Letters of Credit outstanding from time to time at a rate equal to 0.475% per annum equal and (B) all Documentary Letters of Credit outstanding from time to time at a rate equal to 0.250% per annum, in each case, calculated and payable for the quarterly period ending on the last Business Day of each February, May, August and November, and on the Termination Date.

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

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

SECTION 2.17. Use of Proceeds. The proceeds of the Advances shall be available (and the Borrowers agree that they shall use such proceeds) for general corporate purposes of the Borrowers and their Subsidiaries, excluding nonconsensual acquisitions.

SECTION 2.18. Increase in the Aggregate Commitments. (a) The Borrowers may, at any time but in any event not more than once in any calendar year prior to the Termination Date, by notice to the Agent, request that the aggregate amount of the Commitment be increased by an amount of \$10,000,000 or an integral multiple of \$10,000,000 in excess thereof (each a "Commitment Increase") to be effective as of a date that is at least 90 days prior to the scheduled Termination Date then in effect (the "Increase Date") as specified in the related notice to the Agent; provided, however that (i) in no event shall the aggregate amount of the Commitments at any time exceed \$200,000,000, (ii) on the date of any request by the Borrowers for a Commitment Increase and on the related Increase Date, the Public Debt Rating from Moody's and S&P shall be better than or equal to Baa3 and BBB-, respectively, and (iii) on the date of any request by the Borrowers for a Commitment Increase and on the related Increase Date, no Default shall have occurred and be continuing.

(b) The Agent shall promptly notify the Lenders of a request by the Borrowers for a Commitment Increase, which notice shall include (i) the proposed amount of such requested Commitment Increase, (ii) the proposed Increase Date and (iii) the date by which Lenders wishing to participate in the Commitment Increase must commit to an increase in the amount of their respective Commitments (the "Commitment Date"). Each Lender that is willing to participate in such requested Commitment Increase (each an "Increasing Lender") shall, in its sole discretion, give written notice to the Agent on or prior to the Commitment Date of the amount by which it is willing to increase its Commitment. If the Lenders notify the Agent that they are willing to increase the amount of their respective Commitments by an aggregate amount that exceeds the amount of the requested Commitment Increase, the requested Commitment Increase shall be allocated among the Lenders willing to participate therein in such amounts as are agreed between the Borrowers and the Agent.

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

(d) On each Increase Date, each Eligible Assignee that accepts an offer to participate in a requested Commitment Increase in accordance with Section 2.18(c) (each such Eligible Assignee and each Eligible Assignee that agrees to an extension of the Termination Date in accordance with Section

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

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

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

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

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

SECTION 2.19. Obligations and Communications of the Borrowers. All obligations, representations, warranties, covenants and other agreements of either or both of the Borrowers under this Agreement, the Notes and the other Loan Documents shall be joint and several liabilities of both of the Borrowers; provided, however, that anything herein or in the other Loan Documents to the contrary notwithstanding, the liability of the Operating Company with respect to the obligations of the Holding Company shall in no event exceed the maximum permissible amount for which the Operating Company may be obligated under ss. 548 of the United States Bankruptcy Code or applicable state fraudulent conveyance law. Any notice given to, any knowledge held by or any knowledge imputed to either Borrower shall be deemed to be within the knowledge of both of the Borrowers. Any certificate, notice, request, statement or other document or communication signed or made on behalf or in the name of either or both of the Borrowers shall be deemed to have been signed or made by both of the Borrowers unless expressly disclaimed in a particular document or communication. Reference to a single specific Borrower, whether by name, officer's title, letterhead or otherwise, shall not constitute an express disclaimer of any of the foregoing. Any telephone notice permitted to be given by the Borrowers under this Article II shall be sufficient if given by an appropriate officer of either Borrower, and shall be deemed to have been given by both Borrowers.

SECTION 2.20. Subrogation and Contribution. Each Borrower covenants and agrees that, until the obligations of the Borrowers under this Agreement and the other Loan Documents have been fully paid and satisfied, any and all subrogation, contribution and other similar rights of such Borrower against or in respect of (A) the other Borrower, (B) any of the assets and properties of the other Borrower, or (C) any other co-obligor or indemnitor of any of the other Borrower's payments or obligations under any of the Loan Documents, whether now existing or hereafter acquired or created, and whether resulting from any payment made by such Borrower or otherwise, shall be subordinate and inferior in dignity and deferred as to payment to the full payment and satisfaction of all of such obligations. (However, such subordination of subrogation, contribution and similar rights is not intended to include, and this Section is not intended to affect, the intercompany advances and dividends permitted

under this Agreement.) Neither Borrower shall seek any payment or exercise or enforce any right, power, privilege, remedy or interest that it may have with respect to any such subrogation, contribution or other similar right except with the prior written consent of the Agent (with the consent of the Required Lenders, as and if required) and for the benefit of all of the Lenders. Any payment, asset or property delivered to or for the benefit of any Borrower in respect of any such subrogation, contribution or other similar right shall be accepted in trust for the benefit of all of the Lenders and shall be promptly paid or delivered to the Agent (for the benefit of all of the Lenders) to be credited and applied to the payment and satisfaction of the obligations of the Borrowers under this Agreement and the other Loan Documents, whether contingent, matured or unmatured, or to be held by the Agent (for the benefit of all of the Lenders) as additional collateral, as the Agent (with the consent of the Required Lenders, as and if required) may elect in its sole and absolute discretion.

ARTICLE III

CONDITIONS TO EFFECTIVENESS AND LENDING

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

(a) There shall have occurred no Material Adverse Change since May 31, 1998.

(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 Borrowers and their 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 Borrowers shall have notified each Lender and the Agent in writing as to the proposed Effective Date.

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

(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 Revolving Credit Notes) in sufficient copies for each Lender:

(i) The Revolving Credit Notes to the order of the Lenders.

(ii) a copy of the certificate of incorporation of each Borrower, 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 Borrower, 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 Borrower, 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 Borrower approving this Agreement and 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 Borrower certifying the names and true signatures of the officers of such Borrower authorized to sign this Agreement and the Notes and the other documents to be delivered hereunder.

(vii) A favorable opinion of Charles Deull, Senior Vice President, Legal and Business Affairs of the Borrowers, 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) The termination of the commitments of the Original Banks and the payment in full of all Debt outstanding under the Original Loan Agreement.

SECTION 3.02. Conditions Precedent to Each Revolving Credit

Borrowing, each Issuance and Renewal of Letters of Credit and each Increase Date. The obligation of each Lender to make a Revolving Credit Advance (other than a Letter of Credit Advance made by an Issuing Bank or a Lender pursuant to Section 2.16(c)) on the occasion of each Revolving Credit Borrowing (including the initial Borrowing) the obligation of each Issuing Bank to issue Letters of Credit (including the initial issuance) or renew a Standby Letter of Credit from time to time and each Commitment Increase shall be subject to the conditions precedent that the Effective Date shall have occurred and on the date of such Borrowing, issuance or renewal or the applicable Increase Date (a) the following statements shall be true (and each of the giving of the applicable Notice of Revolving Credit Borrowing, Notice of Issuance,

Notice of Renewal or request for Commitment Increase and the acceptance by the Borrowers of the proceeds of such Borrowing or such Letter of Credit issuance or the renewal of such Standby Letter of Credit shall constitute a representation and warranty by the Borrowers that on the date of such Borrowing, issuance, renewal or Increase Date such statements are true):

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

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

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

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

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

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

ARTICLE IV

REPRESENTATIONS AND WARRANTIES

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

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

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

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

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

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

(f) The Consolidated balance sheet of the Holding Company and its Subsidiaries as at May 31, 1998, 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, 1998, and the related consolidating statements of income and cash flows of the Holding Company and its Subsidiaries for the fiscal year then ended, duly certified by the chief financial officer of the Holding Company, and the Consolidated and consolidating balance sheet of the Holding Company and its Subsidiaries as at February 28, 1999, and the related Consolidated and consolidating statements of income and cash flows of the Holding Company and its Subsidiaries for the nine months then ended, duly certified by the chief financial officer of the Holding Company, copies of which have been furnished to each Lender, fairly present, subject, in the case of said balance sheet as at February 28, 1999, 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, 1998, there has been no Material Adverse Change.

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

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

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

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

(k) No Borrower is engaged in the business of extending credit for the purpose of purchasing or carrying margin stock (within the meaning of Regulation U issued by the Board of Governors of the Federal Reserve System), and no proceeds of any Advance will be used to purchase or carry any margin stock or to extend credit to others for the purpose of purchasing or carrying any margin stock.

(l) No Borrower is an "investment company", or a company "controlled" by an "investment company", within the meaning of the Investment Company Act of 1940, as amended.

(m) As of the date hereof and as of any date on or prior to December 31, 1999, the Borrowers have (i) initiated a review and assessment of their respective and each of their Subsidiaries' business and operations (including those affected by suppliers, vendors and customers) that could be adversely affected by the risk that computer applications used by the Borrowers or any of their Subsidiaries (or suppliers, vendors and customers) may be unable to recognize and perform properly date sensitive functions involving certain dates prior to and any date after December 31, 1999 (the "Year 2000 Problem"), (ii) developed a plan and timetable for addressing the Year 2000 Problem on a timely basis and (iii) to date, implemented that plan materially in accordance with such timetable (as adjusted from time to time). Based on the foregoing, the Borrowers believe that all computer applications (including those of their suppliers, vendors and customers) that are material to its or any of its Subsidiaries' business and operations are reasonably expected on a timely basis to be able to perform properly date-sensitive functions for all dates before, on and after January 1, 2000, except to the extent that a failure to do so could not reasonably be expected to have a Material Adverse Effect.

ARTICLE V

COVENANTS OF THE BORROWERS

SECTION 5.01. Affirmative Covenants. So long as any Advance shall remain unpaid or any Lender shall have any Commitment hereunder, each of the Borrowers will:

(a) Reporting Requirements. Provide to the Lenders the following:

(i) promptly after the commencement thereof, notice of all actions and proceedings before any court, governmental agency or arbitrator affecting either Borrower or any of its Subsidiaries of the type described in Section 4.01(e);

(ii) as soon as possible and in any event within five days after the occurrence of each Default continuing on the date of such statement, a statement of the chief financial officer of the Holding Company setting forth details of such Default and the action that the Borrowers have taken and proposes to take with respect thereto and any other event that would be reasonably likely to have or has had a Material Adverse Effect.

(iii) as soon as available and in any event within 60 days after the end of each of the first three quarters of each fiscal year of the Holding Company, the Consolidated balance sheet of the Holding Company and its Subsidiaries as of the end of such quarter and Consolidated statements of income and cash flows of the Holding Company and its Subsidiaries for the period commencing at the end of the previous fiscal year and ending with the end of such quarter, duly certified (subject to year-end audit adjustments) by the chief executive officer, the chief financial officer, the 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 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 Borrowers to audit their books and reasonably acceptable to the Required Lenders, (B) the consolidating balance sheet of the Holding Company and its Subsidiaries as of the end of such fiscal year and consolidating statements of income and cash flows of the Holding Company and its Subsidiaries for such fiscal year and (C) certificates of the chief executive officer, the chief financial

officer, the 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 Borrowers 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, such Borrower and any of its Subsidiaries, and to discuss the affairs, finances and accounts of such Borrower and any of its Subsidiaries with any of their officers or directors and with their independent certified public accountants.

(c) Preservation of Corporate Existence, Etc. Preserve and maintain, and cause each of its Significant Subsidiaries to preserve and maintain, its corporate existence, rights (charter and statutory) and franchises; provided, however, that such Borrower and its Subsidiaries may consummate any merger or consolidation permitted under Section 5.02(c) and provided further that neither such Borrower nor any of its Significant Subsidiaries shall be required to preserve any right or franchise if (x) the Board of Directors of such Borrower or such Significant Subsidiary shall determine that the preservation thereof is no longer desirable in the conduct of the business of such Borrower or such Significant Subsidiary, as the case may be, and that the loss thereof is not disadvantageous in any material respect to such Borrower or the Lenders or (y) in any jurisdiction the failure to do so would not be reasonably likely to have a Material Adverse Effect.

(d) Compliance with Laws, Etc. Comply, and cause each of its Subsidiaries to comply, in all material respects, with all applicable laws, rules, regulations and orders, such compliance to include, without limitation, compliance with ERISA and Environmental Laws other than to the extent the noncompliance therewith or violation thereof would not be reasonably likely to have a Material Adverse Effect.

(e) Payment of Taxes, Etc. Pay and discharge, and cause each of its Subsidiaries to pay and discharge, before the same shall become delinquent, (i) all taxes, assessments and governmental charges or levies imposed upon it or upon its property unless such failure to pay or discharge would not be reasonably likely to have a significant adverse effect on the business of the Borrowers and the Subsidiaries taken as a whole and (ii) all lawful claims that, if unpaid, might by law become a Lien upon its property unless such failure to pay or discharge would not be reasonably likely to have a Material Adverse Effect; provided, however, that neither such

Borrowers nor any of its Subsidiaries shall be required to pay or discharge any such tax, assessment, charge or claim that is being contested in good faith and by proper proceedings and as to which appropriate reserves are being maintained, unless and until any Lien resulting therefrom attaches to its property and becomes enforceable against its other creditors.

(f) Maintenance of Insurance. Maintain, and cause each of its Subsidiaries to maintain, insurance with responsible and reputable insurance companies or associations in such amounts and covering such risks (excluding publisher's liability insurance) as is usually carried by companies engaged in similar businesses and owning similar properties in the same general areas in which such Borrower or such Subsidiary operates.

(g) Keeping of Books. Maintain, and cause each of its Subsidiaries to maintain, a standard system of accounting in accordance with generally accepted accounting principles consistently applied.

(h) Maintenance of Properties, Etc. Maintain and preserve, and cause each of its Subsidiaries to maintain and preserve, all of its properties that are used or useful in the conduct of its business in good working order and condition, ordinary wear and tear excepted, other than to the extent any such failure to maintain and preserve would not be reasonably likely to have a Material Adverse Effect.

SECTION 5.02. Negative Covenants. So long as any Advance shall remain unpaid or any Lender shall have any Commitment hereunder, neither Borrower will:

(a) Liens, Etc. Create or suffer to exist, or permit any of its Subsidiaries to create or suffer to exist, any Lien on or with respect to any of its properties, whether now owned or hereafter acquired, or assign, or permit any of its Subsidiaries to assign, any right to receive income, other than:

(i) Permitted Liens,

(ii) purchase money Liens (including leases treated as security interests) upon or in any real property or equipment acquired or held by any Borrower or any Subsidiary in the ordinary course of business to secure the purchase price of such property or equipment or to secure Debt incurred solely for the purpose of financing the acquisition of such property or equipment, or Liens existing on such property or equipment at the time of its acquisition (other than any such Liens created in contemplation of such acquisition that were not incurred to finance the acquisition of such property) or extensions, renewals or replacements of any of the foregoing for the same or a lesser amount, provided, however, that no such Lien shall extend to or cover any properties of any character other than the real property or equipment being acquired, and no such extension, renewal or replacement shall extend to or cover any properties not theretofore subject to the Lien being extended, renewed or replaced,

(iii) the Liens existing on the Effective Date and described on Schedule 5.02(a) hereto,

(iv) Liens on property of a Person existing at the time such Person is merged into or consolidated with any Borrower or any Subsidiary of such Borrower or becomes a Subsidiary of such Borrower; provided that such Liens were not created in contemplation of such merger, consolidation or acquisition and do not extend to any assets other than those of the Person so merged into or consolidated with such Borrower or such Subsidiary or acquired by such Borrower or such Subsidiary,

(v) other Liens securing Debt in an aggregate principal amount not to exceed \$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 (b) 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 either Borrower may merge or consolidate with or into any other Subsidiary of such Borrower, (ii) any Subsidiary of either Borrower may merge into such Borrower and (iii) either Borrower may merge with any other Person so long as such Borrower is the surviving corporation, provided, in each case, that no Default shall have occurred and be continuing at the time of such proposed transaction or would result therefrom.

(d) Change in Nature of Business. Make, or permit any of its Subsidiaries to make, any material change in the nature of the business of the Borrowers and their Subsidiaries, taken as a whole, as carried on at the date hereof.

(e) Dividends, Etc. Declare or make any dividend payment or other distribution of assets, properties, cash, rights, obligations or securities on account of any shares of any class of capital stock of the Holding Company, or purchase, redeem or otherwise acquire for value (other than any redemption or repurchase 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 cash proceeds received from the substantially concurrent issue of new shares of its common stock, (B) the aggregate amount of cash received and net tax benefit received from the exercise by employees of the Borrowers and their Subsidiaries of stock options or the purchase of shares of stock under the employee stock purchase plan after May 31, 1998, (C) 25% of the reduction in Debt from the conversion to equity of the Holding Company's outstanding 5% convertible subordinated debentures due August 15, 2005 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 such Borrower or such Subsidiary than it would obtain in a comparable arm's-length transaction with a Person not an Affiliate.

(g) Accounting Changes. Make or permit, or permit any of its Subsidiaries to make or permit, any change in accounting policies or reporting practices, except as required or permitted by generally accepted accounting principles.

SECTION 5.03. Financial Covenants. So long as any Advance shall remain unpaid or any Lender shall have any Commitment hereunder, the Borrowers will:

(a) Consolidated Debt Ratio. Maintain at all times a Consolidated Debt Ratio of not more than 0.60:1; provided that during the fiscal quarters ending August 31, 2000 and November 30, 2000, the Borrowers shall maintain a consolidated Debt Ratio of not more than 0.625:1.

(b) Consolidated Interest Coverage Ratio. Maintain as at the last day of each of their fiscal quarters a Consolidated Interest Coverage Ratio of not less than 3.50:1.

ARTICLE VI

EVENTS OF DEFAULT

SECTION 6.01. Events of Default. If any of the following events ("Events of Default") shall occur and be continuing:

(a) any representation or warranty made in this Agreement or any other Loan Document shall prove to have been false or misleading in any material respect when made (or deemed made); or

(b) any report, statement, certificate, schedule or other document or information furnished (whether prior to, on or after the Effective Date) in connection with this Agreement or any of the other Loan Documents shall prove to have been false or misleading in any material respect when furnished (or deemed furnished); or

(c) any default, whether in whole or in part, shall occur in the payment of the principal of the Revolving Credit 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 Borrowers under the Loan Documents; or

(d) any default, whether in whole or in part, shall occur in the due observance or performance of any covenant, term or provision to be performed (i) under Sections 5.01(a)(ii), 5.02(e) or 5.03 of this Agreement or (ii) under Sections 5.01(b) or 5.02 of this Agreement (other than under Section 5.02(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 Borrower; or

(e) any default, whether in whole or in part, shall occur in the due observance or performance of any other covenant, term or provision to be performed under this Agreement and the other Loan Documents by either Borrower or any other party thereto (other than any Lender), which default is not described in any other subsection of this Section, and such default shall continue for a period of ten days after the earlier of notice thereof to or knowledge thereof by either Borrower; provided, however, that if such default is capable of being cured and if the Borrowers shall have commenced to cure such default within such period and shall proceed continuously in good faith and with due diligence to cure such default, then such period instead shall be thirty days; or

(f) (i) any payment default of \$1,000,000 or more shall occur under any instrument or agreement (other than a Loan Document) respecting any Debt of either Borrower or any of their Subsidiaries, unless payment shall be made or action shall be taken within three Business Days after such default in an amount or manner sufficient to cure it, provided that such payment or action will not result in a breach of any term or provision of this Agreement and the other Loan Documents, with the various financial measurements and covenants set forth in Section 5.03 of

this Agreement being recalculated on a pro forma basis (from the then most recent quarterly or subsequent pro forma calculations) to include the effect of any such payment or (ii) any Debt of either Borrower or of any of their Subsidiaries of \$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) either Borrower or any of their Subsidiaries shall (i) fail or be unable to pay its debts generally as they become due, (ii) make a general assignment for the benefit of its creditors, (iii) apply for or consent to the appointment of a receiver, trustee, assignee, custodian, sequestrator, liquidator or similar official for itself or any of its assets and properties, (iv) commence a voluntary case for relief as a debtor under the United States Bankruptcy Code, (v) file with or otherwise submit to any governmental authority any petition, answer or other document seeking (A) reorganization, (B) an arrangement with creditors or (C) to take advantage of any other present or future applicable law respecting bankruptcy, reorganization, insolvency, readjustment of debts, relief of debtors, dissolution or liquidation, (vi) file or otherwise submit any answer or other document admitting or failing to contest the material allegations of a petition or other document filed or otherwise submitted against it in any proceeding under any such applicable law, (vii) be adjudicated a bankrupt or insolvent, or (viii) take any action for the purpose of effecting any of the foregoing; or

(h) any case, proceeding or other action shall be commenced against either Borrower or any of their Subsidiaries for the purpose of effecting, or an order, judgment or decree shall be entered by any court of competent jurisdiction approving (in whole or in part), anything specified in subsection (g) of this Section, or any receiver, trustee, assignee, custodian, sequestrator, liquidator or other official shall be appointed with respect to either Borrower or any of their Subsidiaries, or shall be appointed to take or shall otherwise acquire possession or control of all or a substantial part of the assets and properties of either Borrower or any of their 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 either Borrower or any of their Subsidiaries and the same shall remain undischarged for a period of thirty days during which levy and execution shall not be effectively stayed or contested in good faith; or

(j) either Borrower or any ERISA Affiliate shall, or shall be reasonably expected to, incur liability as a result of one or more of the following: (i) the occurrence of any ERISA Event; (ii) the partial or complete withdrawal of either Borrower or any ERISA Affiliate from a Multiemployer Plan; or (iii) the reorganization or termination of a Multiemployer Plan; provided that any such event(s) (individually or in the aggregate with any other such event(s)) would be reasonably likely to have or has had (in the reasonable judgment of the Required Lenders) a Material Adverse Effect; or

(k) the Holding Company shall own less than all of the outstanding securities issued by the Operating Company, or any other Person shall acquire any option, warrant or other right to acquire any of those securities; or

(l) the Robinson Family shall cease to own (in the aggregate) at least fifty-one percent (51.00%) of the issued and outstanding shares of Class A Stock of the Holding Company;

or any other Person shall acquire any option, warrant or other right to acquire (from the Robinson Family, the Holding Company or otherwise) any securities issued by the Holding Company that, if exercised, would result in the Robinson Family holding less than 51% of such stock; or

(m) the Board of Directors of the Holding Company shall submit to its shareholders for adoption, or the shareholders of the Holding Company shall adopt, any supplement, modification or amendment to or restatement of the certificate of incorporation or the by-laws of the Holding Company that would in any way directly or indirectly (i) alter the relative voting rights or powers of the classes of the capital stock of the Holding Company, (ii) add any additional classes of capital stock with any voting rights, or (iii) adversely affect the rights, powers, privileges, remedies or interests of the Agent or the Lenders under this Agreement or any other Loan Document, in any such case without the prior written consent of the Required Lenders;

then, and in any such event, the Agent (i) shall at the request, or may with the consent, of the Required Lenders, by notice to the Borrowers, declare the obligation of each Lender to make Advances (other than Letter of Credit Advances by an Issuing Bank or a Lender pursuant to Section 2.16(c)) and of each Issuing Bank to issue Letters of Credit to be terminated, whereupon the same shall forthwith terminate, and (ii) shall at the request, or may with the consent, of the Required Lenders, (A) by notice to the Borrowers, declare the 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 Borrowers, (B) by notice to each party required under the terms of any agreement in support of which a Standby Letter of Credit is issued, request that all obligations under such agreement be declared to be due and payable and (C) by notice to each Issuing Bank, direct such Issuing Bank to deliver a Default Termination Notice to the beneficiary of each Standby Letter of Credit issued by it, and each Issuing Bank shall deliver such Default Termination Notices; provided, however, that in the event of an actual or deemed entry of an order for relief with respect to either Borrower under the United States Bankruptcy Code, (1) the obligation of each Lender to make Advances (other than Letter of Credit Advances by an Issuing Bank or a Lender pursuant to Section 2.16(c)) and of each Issuing Bank to issue Letters of Credit 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 each Borrower.

SECTION 6.02. Actions in Respect of the Letters of Credit upon Event of Default. If any Event of Default shall have occurred and be continuing, the Agent may, or shall at the request of the Required Lenders, irrespective of whether it is taking any of the actions described in Section 6.01 or otherwise, make demand upon the Borrowers to, and forthwith upon such demand the Borrowers will, pay to the Agent on behalf of the Lenders in same day funds at the Agent's office designated in such demand, for deposit in the Letter of Credit Collateral Account, an amount equal to the aggregate Available Amount of all Letters of Credit then outstanding. If at any time the Agent determines that any funds held in the Letter of Credit Collateral Account are subject to any right or claim of any Person other than the Agent and the Lenders or that the total amount of such funds is less than the aggregate Available Amount of all Letters of Credit, the Borrowers will, forthwith upon demand by the Agent, pay to the Collateral Agent, as additional funds to be deposited and held in the Letter of Credit Collateral Account, an amount equal to the excess of (a) such aggregate Available Amount over (b) the total amount of funds, if any, then held in the Letter of Credit Collateral Account that the Agent determines to be free and clear of any such right and claim. Upon the drawing of any Letter of Credit for which funds are on deposit in the Letter of Credit Collateral Account, such funds shall be applied to reimburse the relevant Issuing Bank or Lenders, as applicable, to the extent permitted by applicable law. If the Borrowers have not delivered the cash collateral as specified above within five Business Days after it was due, at any time and

from time to time thereafter, the Lenders in their sole and absolute discretion may (but shall not be obligated to) advance to the Borrowers all or any portion of the required cash collateral, by credit to the Letter of Credit Collateral Account or otherwise; and amounts advanced by the Lenders pursuant to this option and outstanding from time to time shall be due and payable, together with interest and additional interest thereon at the rates provided in Section 2.07 of this Agreement, on demand, and shall otherwise constitute "Letter of Credit Advances" for all purposes under this Agreement and the other Loan Documents.

ARTICLE VII

THE AGENT

SECTION 7.01. Authorization and Action. Each Lender hereby appoints and authorizes the Agent to take such action as agent on its behalf and to exercise such powers and discretion under this Agreement and the other Loan Documents as are delegated to the Agent by the terms hereof, together with such powers and discretion as are reasonably incidental thereto. As to any matters not expressly provided for by the Loan Documents (including, without limitation, enforcement or collection of the 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 any Borrower pursuant to the terms of this Agreement.

SECTION 7.02. Agent's Reliance, Etc. Neither the Agent nor any of its directors, officers, agents or employees shall be liable for any action taken or omitted to be taken by it or them under or in connection with Loan Documents, except for its or their own gross negligence or willful misconduct. Without limitation of the generality of the foregoing, the Agent: (i) may treat the Lender that made any Advance as the holder of the Debt resulting therefrom until the Agent receives and accepts an Assumption Agreement entered into by an Assuming Lender as provided in Section 2.18 or an Assignment and Acceptance entered into by such Lender, as assignor, and an Eligible Assignee, as assignee, as provided in Section 8.07; (ii) may consult with legal counsel (including counsel for the Borrowers), independent public accountants and other experts selected by it and shall not be liable for any action taken or omitted to be taken in good faith by it in accordance with the advice of such counsel, accountants or experts; (iii) makes no warranty or representation to any Lender and shall not be responsible to any Lender for any statements, warranties or representations (whether written or oral) made in or in connection with the Loan Documents; (iv) shall not have any duty (fiduciary or otherwise) to ascertain or to inquire as to the performance or observance of any of the terms, covenants or conditions of the Loan Documents on the part of any Borrower or to inspect the property (including the books and records) of the Borrowers; (v) shall not be responsible to any Lender for the due execution, legality, validity, enforceability, genuineness, sufficiency or value of 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 either Borrower or a Lender.

SECTION 7.03. 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, any Borrower, any of its Subsidiaries and any Person who may do business with or own securities of any such Borrower or any such Subsidiary, all as if Citibank were not the Agent and without any duty to account therefor to the Lenders.

SECTION 7.04. Lender Credit Decision. Each Lender acknowledges that it has, independently and without reliance upon the Agent or any other Lender and based on the financial statements referred to in Section 4.01 and such other documents and information as it has deemed appropriate, made its own credit analysis and decision to enter into this Agreement. Each Lender also acknowledges that it will, independently and without reliance upon the Agent or any other Lender and based on such documents and information as it shall deem appropriate at the time, continue to make its own credit decisions in taking or not taking action under this Agreement.

SECTION 7.05. Indemnification. (a) The Lenders agree to indemnify the Agent (to the extent not reimbursed by the Borrowers), from and against such Lender Party's ratable share (determined as provided below) of any and all liabilities, obligations, losses, damages, penalties, actions, judgments, suits, costs, expenses or disbursements of any kind or nature whatsoever that may be imposed on, incurred by, or asserted against the Agent in any way relating to or arising out of the Loan Documents or any action taken or omitted by the Agent under the Loan Documents (collectively, the "Indemnified Costs"), provided that no Lender shall be liable for any portion of the Indemnified Costs resulting from the Agent's gross negligence or willful misconduct. Without limitation of the foregoing, each Lender agrees to reimburse the Agent promptly upon demand for its ratable share of any out-of-pocket expenses (including reasonable counsel fees) incurred by the Agent in connection with the preparation, execution, delivery, administration, modification, amendment or enforcement (whether through negotiations, legal proceedings or otherwise) of, or legal advice in respect of rights or responsibilities under, this Agreement, to the extent that the Agent is not reimbursed for such expenses by the Borrowers. In the case of any investigation, litigation or proceeding giving rise to any Indemnified Costs, this Section 7.05 applies whether any such investigation, litigation or proceeding is brought by the Agent, any Lender or a third party.

(b) Each Lender severally agrees to indemnify each Issuing Bank (to the extent not promptly reimbursed by the Borrowers) from and against such Lender's ratable share (determined as provided below) of any and all liabilities, obligations, losses, damages, penalties, actions, judgments, suits, costs, expenses or disbursements of any kind or nature whatsoever that may be imposed on, incurred by, or asserted against such Issuing Bank in any way relating to or arising out of the Loan Documents or any action taken or omitted by such Issuing Bank under the Loan Documents; provided, that no Lender shall be liable for any portion of such liabilities, obligations, losses, damages, penalties, actions, judgments, suits, costs, expenses or disbursements resulting from such Issuing Bank's gross negligence or willful misconduct. Without limitation of the foregoing, each Lender agrees to reimburse such Issuing Bank promptly upon demand for its ratable share of any costs and expenses (including, without limitation, fees and expenses of counsel) payable by the Borrowers under Section 8.04, to the extent that such Issuing Bank is not promptly reimbursed for such costs and expenses by the Borrowers.

(c) For purposes of this Section 7.05, the Lenders' respective ratable shares of any amount shall be determined, at any time, according to the sum of (i) the aggregate principal amount of the Revolving Credit Advances and Letter of Credit Advances outstanding at such time and owing to the respective Lender, (ii) their respective Pro Rata Shares of the aggregate Available Amount of all Letters of Credit outstanding at such time and (iii) their respective Unused Revolving Credit Commitments at such time; provided that the aggregate principal amount of Letter of Credit Advances owing to any Issuing Bank shall be considered to be owed to the Lenders ratably in accordance with their respective Revolving Credit Commitments. The failure of any Lender to reimburse any Agent or any Issuing Bank,

as the case may be, promptly upon demand for its ratable share of any amount required to be paid by the Lenders to such Agent or such Issuing Bank, as the case may be, as provided herein shall not relieve any other Lender of its obligation hereunder to reimburse such Agent or such Issuing Bank, as the case may be, for its ratable share of such amount, but no Lender shall be responsible for the failure of any other Lender to reimburse such Agent or such Issuing Bank, as the case may be, for such other Lender's ratable share of such amount. Without prejudice to the survival of any other agreement of any Lender Party hereunder, the agreement and obligations of each Lender Party contained in this Section 7.05 shall survive the payment in full of principal, interest and all other amounts payable hereunder and under the other Loan Documents.

SECTION 7.06. Successor Agent. The Agent may resign at any time by giving written notice thereof to the Lenders and the Borrowers 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 7.07. Other Agents. Each Lender hereby acknowledges that neither syndication agent nor any other Lender designated as any "Agent" on the signature pages hereof has any responsibility or liability hereunder other than in its capacity as a Lender.

ARTICLE VIII

MISCELLANEOUS

SECTION 8.01. Amendments, Etc. No amendment or waiver of any provision of this Agreement or the Revolving Credit Notes, nor consent to any departure by any Borrower therefrom, shall in any event be effective unless the same shall be in writing and signed by the Required Lenders, and then such waiver or consent shall be effective only in the specific instance and for the specific purpose for which given; provided, however, that no amendment, waiver or consent shall, unless in writing and signed by all the Lenders, 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 Revolving Credit Advances or any fees or other amounts payable hereunder, (d) postpone any date fixed for any payment of principal of, or interest on, the Revolving Credit Advances or any fees or other amounts payable hereunder, (e) change the percentage of the Commitments, the aggregate Available Amount of outstanding Letters of Creditor of the aggregate unpaid principal amount of the Revolving Credit 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 8.01; 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 8.02. 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 Legal and Business Affairs; 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 Assumption Agreement or 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 any Borrower or the Agent, at such other address as shall be designated by such party in a written notice to the other parties and, as to each other party, at such other address as shall be designated by such party in a written notice to the Borrowers and the Agent. All such notices and communications shall, when mailed, telecopied, 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 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 8.03. No Waiver; Remedies. No failure on the part of any Lender or the Agent to exercise, and no delay in exercising, any right hereunder or under any Note shall operate as a waiver thereof; nor shall any single or partial exercise of any such right preclude any other or further exercise thereof or the exercise of any other right. The remedies herein provided are cumulative and not exclusive of any remedies provided by law.

SECTION 8.04. Costs and Expenses. (a) The Borrowers jointly and severally agree to pay on demand all reasonable costs and expenses of the Agent in connection with the preparation, execution, delivery, administration, modification and amendment of the Loan Documents to be delivered hereunder, including, without limitation, the reasonable fees and expenses of counsel for the Agent with respect thereto and with respect to advising the Agent as to its rights and responsibilities under the Loan Documents. The Borrowers further jointly and severally agree to pay on demand all reasonable costs and expenses of the Agent and the Lenders, if any (including, without limitation, reasonable counsel fees and expenses), in connection with the enforcement (whether through negotiations, legal proceedings or otherwise) of this Agreement, the Notes and the other Loan Documents to be delivered hereunder, including, without limitation, reasonable fees and expenses of counsel for the Agent and each Lender in connection with the enforcement of rights under this Section 8.04(a).

(b) The Borrowers jointly and severally agree to indemnify and hold harmless the Agent and each Lender and each of their Affiliates and their officers, directors, employees, agents and advisors (each, an "Indemnified Party") from and against any and all claims, damages, losses, liabilities and expenses (including, without limitation, reasonable fees and expenses of counsel) incurred by or asserted or awarded against any Indemnified Party, in each case arising out of or in connection with or by reason of (including, without limitation, in connection with any investigation, litigation or proceeding or preparation of a defense in connection therewith) (i) the Loan Documents, any of the transactions contemplated herein or the actual or proposed use of the proceeds of the Advances or (ii) the actual or alleged presence of Environmental Substances on any property of any Borrower or any of its Subsidiaries or any Environmental Claim relating in any way to any Borrower or any of its Subsidiaries, except to the extent such claim, damage, loss, liability or expense is found in a final, non-appealable judgment by a court of competent jurisdiction to have resulted from such Indemnified Party's gross negligence or willful misconduct. In the case of an investigation, litigation or other proceeding to which the indemnity in this Section 8.04(b) applies, such indemnity shall be effective whether or not such investigation, litigation or proceeding is brought by a Borrower, its directors, shareholders or creditors or an Indemnified Party or any other Person or any Indemnified Party is otherwise a party thereto and whether or not the transactions contemplated hereby are consummated. The Borrowers also agree that no Indemnified Party shall have any liability (whether direct or indirect, in contract, tort or otherwise) to the Borrowers or any of their shareholders or creditors for or in connection with the transactions contemplated hereby, except to the extent such liability is found in a final nonappealable judgment by a court of competent jurisdiction to have resulted from such Indemnified Party's gross negligence or willful misconduct.

(c) If any payment of principal of, or Conversion of, any Eurodollar Rate Advance, LIBO Rate Advance is made by any Borrower to or for the account of a Lender other than on the last day of the Interest Period for such Advance, as a result of a payment or Conversion pursuant to Section 2.08(d) or (e), 2.10 or 2.12, acceleration of the maturity of the 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 8.07 as a result of a demand by the Borrowers pursuant to Section 8.07(a), such Borrower shall, upon demand by such Lender (with a copy of such demand to the Agent), pay to the Agent for the account of such Lender any amounts required to compensate such Lender for any additional losses, costs or expenses that it may reasonably incur as a result of such payment or Conversion, including, without limitation, any loss (including loss of anticipated profits), cost or expense incurred by reason of the liquidation or reemployment of deposits or other funds acquired by any Lender to fund or maintain such Advance.

(d) Without prejudice to the survival of any other agreement of the Borrowers hereunder, the agreements and obligations of the Borrowers contained in Sections 2.11, 2.14 and 8.04 shall survive the payment in full of principal, interest and all other amounts payable hereunder and under the other Loan Documents.

SECTION 8.05. Right of Set-off. Upon (i) the occurrence and during the continuance of any Event of Default and (ii) the making of the request or the granting of the consent specified by Section 6.01 to authorize the Agent to declare the 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 any Borrower against any and all of the obligations of such Borrower 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 such Borrower after any such set-off and application, provided that the failure to give such notice shall not affect the validity of such set-off and application. The rights of each Lender and its Affiliates under this Section are in addition to other rights and remedies (including, without limitation, other rights of set-off) that such Lender and its Affiliates may have.

SECTION 8.06. Binding Effect. This Agreement shall become effective (other than Sections 2.01 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 Borrowers and the Agent and when the Agent shall have been notified by each Initial Lender that such Initial Lender has executed it and thereafter shall be binding upon and inure to the benefit of the Borrowers, the Agent and each Lender and their respective successors and assigns, except that no Borrower shall have the right to assign its rights hereunder or any interest herein without the prior written consent of the Lenders.

SECTION 8.07. Assignments and Participations. (a) Each Lender may and, if demanded by the Borrowers (following a demand by such Lender pursuant to Section 2.11 or 2.14) upon at least five Business Days' notice to such Lender and the Agent, will assign to one or more Persons all or a portion of its rights and obligations under this Agreement (including, without limitation, all or a portion of its Commitment, the Revolving Credit Advances owing to it and the Revolving Credit Note or Notes held by it) with the consent of the Borrowers, 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 Borrowers pursuant to this Section 8.07(a) shall be arranged by the Borrowers after consultation with the Agent and shall be either an assignment of all of the rights and obligations of the assigning Lender under this Agreement or an assignment of a portion of such rights and obligations made concurrently with another such assignment or other such assignments that together cover all of the rights and obligations of the assigning Lender under this Agreement, (v) no Lender shall be obligated to make any such assignment as a result of a demand by the Borrowers pursuant to this Section 8.07(a) unless and until such Lender shall have received one or more payments from either the Borrowers or one or more Eligible Assignees in an aggregate amount at least equal to the aggregate outstanding principal amount of the Advances owing to such Lender, together with accrued interest thereon to the date of payment of such principal amount and all other amounts payable to such Lender under this Agreement, 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 Revolving Credit Note subject to such assignment and a processing and recordation fee of \$3,000.

(b) Each Issuing Bank may assign to one or more Eligible Assignees all or a portion of its rights and obligations under the undrawn portion of its Letter of Credit Commitment at any time; provided, however, that (i) except in the case of an assignment to a Person that immediately prior to such assignment was an Issuing Bank or an assignment of all of an Issuing Bank's rights and obligations under this Agreement, the amount of the Letter of Credit Commitment of the assigning Issuing Bank 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 and shall be in an integral multiple of \$1,000,000 in excess thereof, (ii) each such assignment shall be to an Eligible Assignee, and (iii) 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 a processing and recordation fee (unless paid pursuant to Section 8.07(a)) of \$2,000 for each Assignment and Acceptance between an Issuing Bank and its Affiliate or another Issuing Bank or \$3,000 for each other Assignment and Acceptance.

(c) Upon such execution, delivery, acceptance and recording, from and after the effective date specified in each Assignment and Acceptance, (x) the assignee thereunder shall be a party hereto and, to the extent that rights and obligations hereunder have been assigned to it pursuant to such Assignment and Acceptance, have the rights and obligations of a Lender or an Issuing Bank, as the case may be, hereunder and (y) the Lender or Issuing Bank assignor thereunder shall, to the extent that rights and obligations hereunder have been assigned by it pursuant to such Assignment and Acceptance, relinquish its rights and be released from its obligations under this Agreement (and, in the case of an Assignment and Acceptance covering all or the remaining portion of an assigning Lender's rights and obligations under this Agreement, such Lender shall cease to be a party hereto).

(d) By executing and delivering an Assignment and Acceptance, the Lender assignor thereunder and the assignee thereunder confirm to and agree with each other and the other parties hereto as

follows: (i) other than as provided in such Assignment and Acceptance, such assigning Lender makes no representation or warranty and assumes no responsibility with respect to any statements, warranties or representations made in or in connection with the Loan Documents or the execution, legality, validity, enforceability, genuineness, sufficiency or value of the Loan Documents or any other instrument or document furnished pursuant hereto; (ii) such assigning Lender makes no representation or warranty and assumes no responsibility with respect to the financial condition of the Borrowers or the performance or observance by any Borrower of any of its obligations under the Loan Documents or any other instrument or document furnished pursuant hereto; (iii) such assignee confirms that it has received a copy of this Agreement, together with copies of the financial statements referred to in Section 4.01 and such other documents and information as it has deemed appropriate to make its own credit analysis and decision to enter into such Assignment and Acceptance; (iv) such assignee will, independently and without reliance upon the Agent, such assigning Lender or any other Lender and based on such documents and information as it shall deem appropriate at the time, continue to make its own credit decisions in taking or not taking action under this Agreement; (v) such assignee confirms that it is an Eligible Assignee; (vi) such assignee appoints and authorizes the Agent to take such action as agent on its behalf and to exercise such powers and discretion under this Agreement as are delegated to the Agent by the terms hereof, together with such powers and discretion as are reasonably incidental thereto; and (vii) such assignee agrees that it will perform in accordance with their terms all of the obligations that by the terms of this Agreement are required to be performed by it as a Lender.

(e) Upon its receipt of an Assignment and Acceptance executed by an assigning Lender and an assignee representing that it is an Eligible Assignee, together with any Revolving Credit Note or Notes subject to such assignment, the Agent shall, if such Assignment and Acceptance has been completed and is in substantially the form of Exhibit C hereto, (i) accept such Assignment and Acceptance, (ii) record the information contained therein in the Register and (iii) give prompt notice thereof to the Borrowers.

(f) The Agent shall maintain at its address referred to in Section 8.02 a copy of each Assumption Agreement and each Assignment and Acceptance delivered to and accepted by it and a register for the recordation of the names and addresses of the Lenders and the Commitment of, and principal amount of the Advances owing to, each Lender from time to time (the "Register"). The entries in the Register shall be conclusive and binding for all purposes, absent manifest error, and the Borrowers, the Agent and the Lenders may treat each Person whose name is recorded in the Register as a Lender hereunder for all purposes of this Agreement. The Register shall be available for inspection by the Borrowers or any Lender at any reasonable time and from time to time upon reasonable prior notice.

(g) Each Lender may sell participations to one or more banks or other entities (other than a Borrower or any of its Affiliates) in or to all or a portion of its rights and obligations under this Agreement (including, without limitation, all or a portion of its Commitment, the Advances owing to it and any Note or Notes held by it); provided, however, that (i) such Lender's obligations under this Agreement (including, without limitation, its Commitment to the Borrowers hereunder) shall remain unchanged and such Lender agrees that it will not raise (and hereby expressly waives) any defense relating to any such participation, (ii) such Lender shall remain solely responsible to the other parties hereto for the performance of such obligations, (iii) such Lender shall remain the holder of any such Note for all purposes of this Agreement, (iv) the Borrowers, the Agent and the other Lenders shall continue to deal solely and directly with such Lender in connection with such Lender's rights and obligations under this Agreement, (v) no participant under any such participation shall have any right to approve any amendment or waiver of any provision of this Agreement or any Note, or any consent to any departure by any Borrower therefrom, except to the extent that such amendment, waiver or consent would reduce the principal of, or interest on, 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.

(h) Any Lender may, in connection with any assignment or participation or proposed assignment or participation pursuant to this Section 8.07, disclose to the assignee or participant or proposed assignee or participant, any information relating to the Borrowers furnished to such Lender by or on behalf of the Borrowers; provided that, prior to any such disclosure, the assignee or participant or proposed assignee or participant shall agree to preserve the confidentiality of any Confidential Information relating to the Borrowers received by it from such Lender.

(i) Notwithstanding any other provision set forth in this Agreement, any Lender may at any time create a security interest in all or any portion of its rights under this Agreement (including, without limitation, the Advances owing to it and any Note or Notes held by it) in favor of any Federal Reserve Bank in accordance with Regulation A of the Board of Governors of the Federal Reserve System.

SECTION 8.08. Confidentiality. Neither the Agent nor any Lender shall disclose any Confidential Information to any other Person without the consent of the Borrowers, other than (a) to the Agent's or such Lender's Affiliates and their officers, directors, employees, agents and advisors and, as contemplated by Section 8.07(h), to actual or prospective assignees and participants, and then only on a confidential basis, (b) as required by any law, rule or regulation or judicial process and (c) as requested or required by any state, federal or foreign authority or examiner regulating banks or banking.

SECTION 8.09. No Liability of the Issuing Banks. The Borrower assumes all risks of the acts or omissions of any beneficiary or transferee of any Letter of Credit with respect to its use of such Letter of Credit. Neither any Issuing Bank nor any of its officers or directors shall be liable or responsible for: (a) the use that may be made of any Letter of Credit or any acts or omissions of any beneficiary or transferee in connection therewith; (b) the validity, sufficiency or genuineness of documents, or of any endorsement thereon, even if such documents should prove to be in any or all respects invalid, insufficient, fraudulent or forged; (c) payment by such Issuing Bank against presentation of documents that do not comply with the terms of a Letter of Credit, including failure of any documents to bear any reference or adequate reference to the Letter of Credit, unless such documents are substantially different from the applicable form specified by such Letter of Credit; or (d) any other circumstances whatsoever in making or failing to make payment under any Letter of Credit, except that the applicable Borrower shall have a claim against such Issuing Bank, and such Issuing Bank shall be liable to such Borrower, to the extent of any direct, but not consequential, damages suffered by such Borrower that such Borrower proves were caused by (i) such Issuing Bank's willful misconduct or gross negligence in determining whether documents presented under any Letter of Credit comply with the terms of the Letter of Credit or (ii) such Issuing Bank's willful failure to make lawful payment under a Letter of Credit after the presentation to it of a draft and certificates strictly complying with the terms and conditions of the Letter of Credit. In furtherance and not in limitation of the foregoing, such Issuing Bank may accept documents that appear on their face to be in order, without responsibility for further investigation, regardless of any notice or information to the contrary.

SECTION 8.10. Governing Law. This Agreement and the Notes shall be governed by, and construed in accordance with, the laws of the State of New York.

SECTION 8.11. Execution in Counterparts. This Agreement may be executed in any number of counterparts and by different parties hereto in separate counterparts, each of which when so executed shall be deemed to be an original and all of which taken together shall constitute one and the

same agreement. Delivery of an executed counterpart of a signature page to this Agreement by telecopier shall be effective as delivery of a manually executed counterpart of this Agreement.

SECTION 8.12. Waiver of Jury Trial. Each of the Borrowers, the Agent and the Lenders hereby irrevocably waives all right to trial by jury in any action, proceeding or counterclaim (whether based on contract, tort or otherwise) arising out of or relating to this Agreement or 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 CORPORATION

By /s/ Ray Marchuk

Title: VP Finance & Investor Relations

SCHOLASTIC INC.

By /s/ Ray Marchuk

Title: VP Finance & Investor Relations

CITIBANK, N.A.,
as Agent

By /s/ Robert D. Wetrus

Title: Managing Director & Vice President

Initial Lenders

CITIBANK, N.A.

By /s/ Diane L. Pockaj

Title: Vice President

THE CHASE MANHATTAN BANK

By /s/ Leonard Noll

Title: Vice President

FLEET BANK, N.A.

By /s/ Greg Miller

Title: Assistant Vice President

SUMMIT BANK

By /s/ Carter Evans

Title: Vice President

UMB BANK, N.A.

By /s/ Kent Workman

Title: Executive Vice President

HSBC BANK USA

By /s/ William M. Holland

Title: Vice President

SCHEDULE I

COMMITMENTS AND APPLICABLE LENDING OFFICES

| Name of Initial Lender | Revolving Credit Commitment | Letter of Credit Commitment | Domestic Lending Office | Eurodollar Lending Office |
|--------------------------|-----------------------------|-----------------------------|--|--|
| Citibank, N.A. | \$35,000,000 | \$10,000,000 | 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 | \$35,000,000 | | E. 36 Midland Avenue Paramus, NJ 07652 Attn: Roseann Bernardone T: (201) 599-6681 F: (201) 599-6672 | E. 36 Midland Avenue Paramus, NJ 07652 Attn: Roseann Bernardone T: (201) 599-6681 F: (201) 599-6672 |
| Fleet Bank, N.A. | \$35,000,000 | | 1185 Avenue of the Americas New York, NY 10036 Attn: Robert Bloch T: (212) 819-5738 F: (212) 819-4114 | 1185 Avenue of the Americas New York, NY 10036 Attn: Robert Bloch T: (212) 819-5738 F: (212) 819-4114 |
| Summit Bank | \$35,000,000 | | 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 |
| UMB Bank, n.a. | \$20,000,000 | | 1010 Grand Avenue Kansas City, MO 64141-6226 Attn: Kent Workman T: (816) 860-7934 F: (816) 860-4838 | 1010 Grand Avenue Kansas City, MO 64141-6226 Attn: Kent Workman T: (816) 860-7934 F: (816) 860-4838 |
| HSBC Bank USA | \$10,000,000 | | 1 HSBC Center Buffalo, NY 14203 Attn: Marie Sax T: (716) 841-5668 F: (716) 841-0269 | 1 HSBC Center Buffalo, NY 14203 Attn: Marie Sax T: (716) 841-5668 F: (716) 841-0269 |

SCHEDULE 4.01(i)

SCHOLASTIC CORPORATION
LIST OF SUBSIDIARIES

DOMESTIC SUBSIDIARIES

STATE OF INCORPORATION

| | |
|--|-------------|
| ----- | ----- |
| Scholastic Inc. | New York |
| Scholastic Entertainment Inc. (formerly Scholastic Productions Inc.) | New York |
| Children's Music Library, Inc. (a subsidiary of Weston Woods Studios, Inc.) | New York |
| Lectorum Publications, Inc. | New York |
| Scholastic Book Services, Inc. | Delaware |
| SE Distribution Inc. (a subsidiary of Scholastic Entertainment Inc.) | Delaware |
| Scholastic UK Group Ltd. (formerly Scholastic Publications (Magazines), Ltd.) | Delaware |
| Weston Woods Studios, Inc. | Delaware |
| Georgetown Studios, Inc. (a subsidiary of Weston Woods Studios, Inc.) | Connecticut |
| The Electronic Bookshelf, Inc. | Indiana |
| Scholastic Book Clubs, Inc. | Missouri |

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 Book Fairs 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 |
| Scholastic Book Fairs Ltd. | Ireland |
| Scholastic India Private Limited | India |
| Scholastic Mexico, S.A. de C.V. | Mexico |
| Scholastic New Zealand Ltd. (formerly known as Ashton Scholastic Ltd.) | New Zealand |

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.

EXHIBIT A-1 - FORM OF
REVOLVING CREDIT
PROMISSORY NOTE

Dated: _____, 199_

FOR VALUE RECEIVED, the undersigned, [NAME OF BORROWER], a _____ corporation (the "Borrower"), HEREBY PROMISES TO PAY to the order of _____ (the "Lender") for the account of its Applicable Lending Office on the Termination Date (each as defined in the Credit Agreement referred to below) the aggregate principal amount of the Revolving Credit Advances made by the Lender to the Borrower pursuant to the Credit Agreement dated as of August 11, 1999 among the Borrower, [Scholastic Corporation][Scholastic Inc.], the Lender and certain other lenders parties thereto, Salomon Smith Barney Inc., as arranger, The Chase Manhattan Bank and Fleet Bank, N.A., as syndication agents, 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 the Termination Date.

The Borrower promises to pay interest on the unpaid principal amount of each Revolving Credit Advance from the date of such Revolving Credit Advance until such principal amount is paid in full, at such interest rates, and payable at such times, as are specified in the Credit Agreement.

Both principal and interest are payable in lawful money of the United States of America to Citibank, as Agent, at 399 Park Avenue, New York, New York 10043, in same day funds. Each Revolving Credit Advance owing to the Lender by the Borrower pursuant to the Credit Agreement, and all payments made on account of principal thereof, shall be recorded by the Lender and, prior to any transfer hereof, endorsed on the grid attached hereto which is part of this Promissory Note.

This Promissory Note is one of the Revolving Credit Notes referred to in, and is entitled to the benefits of, the Credit Agreement. The Credit Agreement, among other things, (i) provides for the making of Revolving Credit Advances by the Lender to the Borrower from time to time, the indebtedness of the Borrower resulting from each such Revolving Credit Advance being evidenced by this Promissory Note and (ii) contains provisions for acceleration of the maturity hereof upon the happening of certain stated events and also for prepayments on account of principal hereof prior to the maturity hereof upon the terms and conditions therein specified.

The Borrower hereby waives presentment, demand, protest and notice of any kind. No failure to exercise, and no delay in exercising, any rights hereunder on the part of the holder hereof shall operate as a waiver of such rights.

[NAME OF BORROWER]

By _____
Title:

EXHIBIT A-2 - FORM OF
COMPETITIVE BID
PROMISSORY NOTE

U.S.\$ _____ Dated: _____, 199_

FOR VALUE RECEIVED, the undersigned, [NAME OF BORROWER], a _____ corporation (the "Borrower"), HEREBY PROMISES TO PAY to the order of _____ (the "Lender") for the account of its Applicable Lending Office (as defined in the Credit Agreement dated as of August 11, 1999 among the Borrower, [Scholastic Corporation] [Scholastic Inc.], the Lender and certain other lenders parties thereto, Salomon Smith Barney Inc., as arranger, The Chase Manhattan Bank and Fleet Bank, N.A., as syndication agents, 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 _____, 199_, the principal amount of U.S.\$ _____].

The Borrower promises to pay interest on the unpaid principal amount hereof from the date hereof until such principal amount is paid in full, at the interest rate and payable on the interest payment date or dates provided below:

Interest Rate: ____% per annum (calculated on the basis of a year of _____ days for the actual number of days elapsed).

Both principal and interest are payable in lawful money of _____ to Citibank, as agent, for the account of the Lender at the office of _____, at _____ in same day funds.

This Promissory Note is one of the Competitive Bid Notes referred to in, and is entitled to the benefits of, the Credit Agreement. The Credit Agreement, among other things, contains provisions for acceleration of the maturity hereof upon the happening of certain stated events.

The Borrower hereby waives presentment, demand, protest and notice of any kind. No failure to exercise, and no delay in exercising, any rights hereunder on the part of the holder hereof shall operate as a waiver of such rights.

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

[NAME OF BORROWER]

By _____
Title:

EXHIBIT B-1 - FORM OF NOTICE OF
REVOLVING CREDIT 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, [Name of Borrower], refers to the Credit Agreement, dated as of August 11, 1999 (as amended or modified from time to time, the "Credit Agreement", the terms defined therein being used herein as therein defined), among the undersigned, [Scholastic Corporation][Scholastic Inc.], certain Lenders parties thereto, Salomon Smith Barney Inc., as arranger, The Chase Manhattan Bank and Fleet Bank, N.A., as syndication agents, 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 Revolving Credit Borrowing under the Credit Agreement, and in that connection sets forth below the information relating to such Revolving Credit Borrowing (the "Proposed Revolving Credit Borrowing") as required by Section 2.02(a) of the Credit Agreement:

(i) The Business Day of the Proposed Revolving Credit Borrowing is _____, 199_.

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

(iii) The aggregate amount of the Proposed Revolving Credit Borrowing is \$_____.

[(iv) The initial Interest Period for each Eurodollar Rate Advance made as part of the Proposed Revolving Credit Borrowing is _____ month[s].]

The undersigned hereby certifies that the following statements are true on the date hereof, and will be true on the date of the Proposed Revolving Credit Borrowing:

(A) the representations and warranties contained in Section 4.01 of the Credit Agreement are correct, before and after giving effect to the Proposed Revolving Credit Borrowing and to the application of the proceeds therefrom, as though made on and as of such date; and

(B) no event has occurred and is continuing, or would result from such Proposed Revolving Credit Borrowing or from the application of the proceeds therefrom, that constitutes a Default.

Very truly yours,

[NAME OF BORROWER]

By _____
Title:

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, [Name of Borrower], refers to the Credit Agreement, dated as of August 11, 1999 (as amended or modified from time to time, the "Credit Agreement", the terms defined therein being used herein as therein defined), among the undersigned, [Scholastic Corporation][Scholastic Inc.], certain Lenders parties thereto, Salomon Smith Barney Inc., as arranger, The Chase Manhattan Bank and Fleet Bank, N.A., as syndication agents, 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,

[NAME OF BORROWER]

By _____
Title:

EXHIBIT C - FORM OF
ASSIGNMENT AND ACCEPTANCE

Reference is made to the Credit Agreement dated as of August 11, 1999 (as amended or modified from time to time, the "Credit Agreement") among Scholastic Corporation, a Delaware corporation, and Scholastic Inc., a New York corporation (the "Borrowers"), the Lenders (as defined in the Credit Agreement), Salomon Smith Barney Inc., as arranger, The Chase Manhattan Bank and Fleet Bank, N.A., as syndication agents, 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 Revolving Credit Advances owing to the Assignee will be as set forth on Schedule 1 hereto.

2. The Assignor (i) represents and warrants that it is the legal and beneficial owner of the interest being assigned by it hereunder and that such interest is free and clear of any adverse claim; (ii) makes no representation or warranty and assumes no responsibility with respect to any statements, warranties or representations made in or in connection with the Credit Agreement or the execution, legality, validity, enforceability, genuineness, sufficiency or value of the Loan Documents or any other instrument or document furnished pursuant thereto; (iii) makes no representation or warranty and assumes no responsibility with respect to the financial condition of the Borrowers or the performance or observance by any Borrower of any of its obligations under any Loan Document or any other instrument or document furnished pursuant thereto; and (iv) attaches the Revolving Credit Note, if any held by the Assignor [and requests that the Agent exchange such Revolving Credit Note for a new Revolving Credit Note payable to the order of [the Assignee in an amount equal to the Commitment assumed by the Assignee pursuant hereto or new Revolving Credit 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 Revolving Credit 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 Revolving Credit Notes for periods prior to the Effective Date directly between themselves.

7. This Assignment and Acceptance shall be governed by, and construed in accordance with, the laws of the State of New York.

8. This Assignment and Acceptance may be executed in any number of counterparts and by different parties hereto in separate counterparts, each of which when so executed shall be deemed to be an original and all of which taken together shall constitute one and the same agreement. Delivery of an executed counterpart of Schedule 1 to this Assignment and Acceptance by telecopier shall be effective as delivery of a manually executed counterpart of this Assignment and Acceptance.

IN WITNESS WHEREOF, the Assignor and the Assignee have caused Schedule 1 to this Assignment and Acceptance to be executed by their officers thereunto duly authorized as of the date specified thereon.

Schedule 1
to
Assignment and Acceptance

Percentage interest assigned: _____%

Assignee's Commitment: _____

Aggregate outstanding principal amount of Revolving
Credit Advances assigned: \$ _____

Principal amount of Revolving Credit Note payable
to Assignee: \$ _____

Principal amount of Revolving Credit Note payable
to Assignor: \$ _____

Effective Date*: _____, 199_

[NAME OF ASSIGNOR], as Assignory

By _____
Title:

Dated: _____, 199_

[NAME OF ASSIGNEE], as Assignee

By _____
Title:

Dated: _____, 199_

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

Accepted this
___ day of _____, 199_

CITIBANK, N.A., as Agent

By _____
Title:

Approved this ___ day
of _____, 199_

SCHOLASTIC CORPORATION

By _____
Title:

SCHOLASTIC INC.

By _____
Title:

[Letterhead of
Charles B. Duell
of Scholastic, Inc.]

August 11, 1999

To each of the Lenders parties
to the Credit Agreement dated
as of August 11, 1999
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 August 11, 1999 (the "Credit Agreement"), among Scholastic Corporation and Scholastic Inc. (the "Borrowers"), the Lenders parties thereto, Salomon Smith Barney Inc., as arranger, The Chase Manhattan Bank and Fleet Bank, N.A., as syndication agents, 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 Borrowers 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 Borrowers pursuant to Article III of the Credit Agreement.
- (3) The Certificate of Incorporation of each Borrower and all amendments thereto (the "Charter").
- (4) The by-laws of each Borrower and all amendments thereto (the "By-laws").
- (5) A certificate of the Secretary of State of Delaware, dated August , 1999, attesting to the continued corporate existence and good standing of the Holding Company in that State.
- (5) A certificate of the Secretary of State of New York, dated August , 1999 attesting to the continued corporate existence and good standing of the Operating Company in that State.

I have also examined the originals, or copies certified to our satisfaction, of the documents listed in certificates of the chief financial officers of the Borrowers, dated the date hereof (the "Certificates"), certifying that the documents listed in such certificate are all of the indentures, loan or credit agreements, leases, guarantees, mortgages, security agreements, bonds, notes and other agreements or instruments, and all of the orders, writs, judgments, awards, injunctions and decrees, that affect or purport to affect such Borrower's right to borrow money or such Borrower's obligations under the Credit Agreement or the Notes. In addition, I have examined the originals, or copies certified to our satisfaction, of such other corporate records of the Borrowers, certificates of public officials and of officers of the Borrowers, and agreements, instruments and other documents, as 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 Borrowers 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 Borrower is a corporation duly organized, validly existing and in good standing under the laws of the State of its incorporation.

2. The execution, delivery and performance by each Borrower of the Credit Agreement and the Notes to which it is a party, and the consummation of the transactions contemplated thereby, are within such Borrower's corporate powers, have been duly authorized by all necessary corporate action, and do not contravene (i) the Charter or the By-laws of such Borrower or (ii) any law, rule or regulation applicable to such Borrower (including, without limitation, Regulation X of the Board of Governors of the Federal Reserve System) or (iii) any contractual or legal restriction contained in any indentures, loan or credit agreements, leases, guarantees, mortgages, security agreements, bonds, notes and other agreements or instruments, or any orders, writs, judgments, awards, injunctions and decrees, that affect or purport to affect such Borrower's right to borrow money or such Borrower's obligations under the Credit Agreement or the Notes. The Credit Agreement and the Notes have been duly executed and delivered on behalf of each Borrower.

3. No authorization, approval or other action by, and no notice to or filing with, any governmental authority or regulatory body or any other third party is required for the due execution, delivery and performance by any Borrower of the Credit Agreement and the Notes to which it is a party.

4. The Credit Agreement is, and after giving effect to the initial Borrowing, the Notes to which it is a party will be, legal, valid and binding obligations of each Borrower enforceable against such Borrower in accordance with their respective terms.

5. To the best of my knowledge, there are no pending or overtly threatened actions or proceedings against any Borrower or any of its Subsidiaries before any court, governmental agency or arbitrator that purport to affect the legality, validity, binding effect or enforceability of the Credit Agreement or any of the Notes or the consummation of the transactions contemplated thereby or that are likely to have a Material Adverse Effect.

The opinions set forth above are subject to the following qualifications:

(a) 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).

(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,

/s/ Charles Deull

EXHIBIT E - FORM OF FINANCIAL
COVENANTS COMPLIANCE CERTIFICATE

FINANCIAL COVENANTS COMPLIANCE CERTIFICATE

respecting

SCHOLASTIC CORPORATION

and

SCHOLASTIC INC.

[MONTH and DATE], 19

Pursuant to the Amended and Restated Credit Agreement dated as of August 11, 1999 (as the same may be supplemented, modified, amended or restated from time to time in the manner provided therein, the "Credit Agreement"), the undersigned, being respectively, the [PRINT TITLE] of Scholastic Corporation and the [PRINT TITLE] of Scholastic Inc. (individually, a "Borrower" and, collectively, the "Borrowers"), hereby certify to 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 Borrowers' 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

August 11, 1999

To the Initial Lenders party to the
Credit Agreement referred
to below and to Citibank, N.A.,
as Agent

Ladies and Gentlemen:

We have acted as special New York counsel to Citibank, N.A., as Agent, in connection with the preparation, execution and delivery of the Amended and Restated Credit Agreement dated as of August 11, 1999 (the "Credit Agreement") among Scholastic Corporation, a Delaware corporation (the "Holding Company"), Scholastic Inc., a New York corporation (the "Operating Company" and, together with the Holding Company, the "Borrowers") and each of you. Unless otherwise defined herein, terms defined in the Credit Agreement are used herein as therein defined.

In that connection, we have examined a counterpart of the Credit Agreement executed by the Borrowers, the Notes executed by the respective Borrowers and delivered on the date hereof (for purposes of this opinion letter, the "Notes") and, to the extent relevant to our opinion expressed below, the other documents delivered by the Borrowers pursuant to Section 3.01 of the Credit Agreement.

In our examination of the Credit Agreement, the Notes and such other documents, we have assumed, without independent investigation (a) the due execution and delivery of the Credit Agreement by all parties thereto and of the Notes by the respective Borrowers, (b) the genuineness of all signatures and (c) the authenticity of the originals of the documents submitted to us.

In addition, we have assumed, without independent investigation, that (i) each Borrower is duly organized and validly existing under the laws of the jurisdiction of its organization and has full power and authority (corporate and otherwise) to execute, deliver and perform the Credit Agreement and the Notes to which it is a party and (ii) the execution, delivery and performance by each Borrower of the Credit Agreement and the Notes to which it

is a party have been duly authorized by all necessary action (corporate or otherwise) and do not (A) contravene the certificate of incorporation, bylaws or other constituent documents of any Borrower, (B) conflict with or result in the breach of any document or instrument binding on any Borrower or (C) violate or require any governmental or regulatory authorization or other action under any law, rule or regulation applicable to any Borrower other than New York law or United States Federal law applicable to borrowers generally or, assuming the correctness of the Borrowers' statements made as representations and warranties in Section 4.01(d) of the Credit Agreement, applicable to any Borrower. We have also assumed that the Credit Agreement is the legal, valid and binding obligation of each Lender, enforceable against such Lender in accordance with its terms.

Based upon the foregoing examination and assumptions and upon such other investigation as we have deemed necessary and subject to the qualifications set forth below, we are of the opinion that the Credit Agreement and each of the Notes are the legal, valid and binding obligations of each Borrower party thereto, enforceable against such Borrower in accordance with their respective terms.

Our opinion above is subject to the following qualifications:

(i) Our opinion above 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.

(ii) Our opinion above is also 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).

(iii) We express no opinion as to the enforceability of the indemnification provisions set forth in Section 8.04 of the Credit Agreement to the extent enforcement thereof is contrary to public policy regarding the exculpation of criminal violations, intentional harm and acts of gross negligence or recklessness.

(iv) Our opinion above is limited to the law of the State of New York and the federal law of the United States of America and we do not express any opinion herein concerning any other law. Without limiting the generality of the foregoing, we express no opinion as to the effect of the law of a jurisdiction other than the State of New York wherein any Lender may be located or

wherein enforcement of the Credit Agreement or any of the Notes may be sought that limits the rates of interest legally chargeable or collectible.

A copy of this opinion letter may be delivered by any of you to any Person that becomes a Lender in accordance with the provisions of the Credit Agreement. Any such Lender may rely on the opinion expressed above as if this opinion letter were addressed and delivered to such Lender on the date hereof.

This opinion letter speaks only as of the date hereof. We expressly disclaim any responsibility to advise you or any other Lender who is permitted to rely on the opinion expressed herein as specified in the next preceding paragraph of any development or circumstance of any kind including any change of law or fact that may occur after the date of this opinion letter even though such development, circumstance or change may affect the legal analysis, a legal conclusion or any other matter set forth in or relating to this opinion letter. Accordingly, any Lender relying on this opinion letter at any time should seek advice of its counsel as to the proper application of this opinion letter at such time.

Very truly yours,

/s/ Shearman & Sterling

WEH:SLH

SCHOLASTIC CORPORATION 1997 OUTSIDE DIRECTORS'
STOCK OPTION PLAN
(Amended and Restated as of May 25, 1999)

1. Name and General Purpose

The name of this plan is the Scholastic Corporation 1997 Outside Directors' Stock Option Plan (the "Plan"). The Plan was originally adopted effective September 16, 1997 and was subsequently amended and restated as of May 25, 1999. The purpose of the Plan is to attract and retain the services, for the benefit of Scholastic Corporation, a Delaware corporation (the "Company"), of experienced and knowledgeable directors who are not employees of the Company ("Outside Directors") and to provide an additional incentive for such Outside Directors through continuing ownership of the common stock, par value \$.01 per share, of the Company (the "Common Stock").

2. Automatic Option Grants to Outside Directors

Subject to the provisions of Section 13 hereof, each individual (other than any director electing not to participate hereunder) who is, as of each January 7 (or, if such date is not a business day, as of the next succeeding business day) occurring after the effective date of the Plan, an incumbent Outside Director, excluding Directors Emeriti, shall automatically be granted, as of each such January 7 (or, if applicable, the next succeeding business day), an option to purchase 3,000 shares of Common Stock at a price per share equal to 100% of the Fair Market Value of the Common Stock on such date.

For purposes of this Section 2, "Fair Market Value" shall mean the average of the high and low selling prices of the Common Stock on the date on which the Common Stock is to be valued hereunder, or, if none, on the last preceding date prior to such date on which such prices were quoted, as reported by the Automated Quotation System of the National Association of Securities Dealers, Inc. ("NASDAQ"). All options granted under the Plan shall be non-qualified stock options.

3. Exercise of Options

Subject to the provisions of Section 5 hereof, an option granted hereunder may not be exercised within twelve (12) months after the date of grant.

Except as provided in Section 5 below, an option may be exercised, in whole or in part at any time and from time to time during the period beginning with the expiration of twelve months following the date of grant and ending on the option expiration date, by giving written notice of exercise to the Company specifying the number of shares of Common Stock to be purchased. Such notice shall be accompanied by payment in full of the option price, either in cash or by certified check or bank check or in shares of Common Stock of the Company (valued at Fair Market Value on the date of exercise), actually or by attestation, or in any combination thereof. The option price may also be paid by delivery of an irrevocable

notice of exercise to the Company and a broker-dealer acceptable to the Company under such circumstances as the Board of Directors shall authorize.

No shares of Common Stock shall be issued until full payment therefor has been made. An Outside Director shall have no rights as a shareholder of the Company with respect to any shares of Common Stock subject to an option until such time as the Outside Director has properly exercised his or her option, paid in full for the shares subject to such option and executed any representations required by the Company.

4. Expiration of Options

Each option granted hereunder shall expire on the tenth anniversary of the date on which it was granted, if not sooner terminated as provided herein.

5. Termination of Services of Outside Directors

(a) In the event that an Outside Director to whom an option has been granted under the Plan shall cease to serve as a Director on the Board of Directors of the Company, otherwise than by reason of death or disability, such option may be exercised (to the extent that the Outside Director is entitled to do so at the time of such option exercise) at any time and from time to time within six (6) months after such cessation of service, but not thereafter, and in no event after the date on which, except for such cessation of service, the option would otherwise expire; provided, however, that, in the event an Outside Director to whom an option has been granted under the Plan shall cease to serve on the Board of Directors but shall have been designated as a Director Emeritus, his or her option shall continue to be exercisable (to the extent his or her options have become exercisable at the time of such exercise) until six (6) months after termination of his or her Director Emeritus status or expiration of the option, whichever occurs first.

(b) In the event that an Outside Director to whom an option has been granted under the Plan shall cease to serve on the Board of Directors by reason of disability (as determined by the Board of Directors on the basis of all the facts and circumstances), such option may be exercised, in full or in part, by the Outside Director or his or her legally appointed representative (notwithstanding that the option may not yet otherwise have become exercisable with respect to all or part of such shares as of the date of disability) at any time and from time to time within twelve (12) months after such cessation of service, but not thereafter, and in no event after the date on which, except for

such disability, the option would otherwise expire.

(c) If an Outside Director to whom an option has been granted under the Plan dies (i) while he or she is serving on the Board of Directors, (ii) within three (3) months after cessation of service on the Board of Directors other than by reason of disability, or (iii) within twelve (12) months after cessation of service on the Board of Directors by reason of disability, such option may be exercised:

1) in the case of death while serving on the Board of Directors, as to all or any part of the remaining unexercised portion of the option, notwithstanding that the option may not yet otherwise have become exercisable with respect to all or part of such shares as of the date of death;

2) in the case of death after cessation of service on the Board of Directors or death after termination of such service by reason of disability, to the extent that the Outside Director was entitled to do so at the date of his or her death, giving effect to the provisions of subsections (a) and (b) above of this Section 5; and

3) in each case by the person who acquired the right to exercise such option by bequest or inheritance or by reason of the death of the Outside Director, at any time and from time to time within twelve (12) months after the date of death of the Outside Director, but in no event after the date on which the option would otherwise expire under Section 4 of the Plan.

4) Notwithstanding the provisions of subsections (b) and (c) above of this Section 5, in no event shall any option granted under the Plan be exercisable within six (6) months of the date of grant.

6. Transferability

No option granted under the Plan may be sold, transferred, pledged, assigned, or otherwise alienated, other than by will or by the laws of descent and distribution.

7. Shares Reserved

The aggregate number of shares reserved for issuance pursuant to the Plan shall be 180,000 shares of Common Stock, or the number and kind of shares of stock or other securities which shall be substituted for such shares or to which such shares shall be adjusted as provided in Section 8.

Such number of shares may be set aside out of the authorized but unissued shares of Common Stock not reserved for any other purpose, or out of issued shares of Common Stock acquired for and held in the treasury of the Company.

Shares subject to, but not sold or issued under, any option terminating, expiring or cancelled for any reason prior to its exercise in full will again be available for options thereafter granted during the balance of the term of the Plan.

8. Adjustments Due to Stock Splits, Mergers, Consolidations, etc.

If, at any time, the Company shall take any action, whether by stock dividend, stock split, combination of shares, or otherwise, which results in a proportionate increase or decrease in the number of shares of Common Stock theretofore issued and outstanding, (i) the

number of shares which are reserved under the Plan shall be automatically adjusted, and (ii) the number of shares which, at such time, are subject to outstanding options shall be adjusted in the same proportion (with appropriate adjustments in the option price); provided, however, that the Company shall not be obligated to issue fractional shares.

In the event of any change in the outstanding shares of Common Stock by reason of any recapitalization, merger, consolidation, combination, exchange of shares, or other similar corporate change, equitable substitution or adjustment shall be made in the number or kind of shares of Common Stock or other securities issued or reserved for issuance pursuant to the Plan, including pursuant to outstanding options granted under the Plan.

9. Withholding or Deduction of Taxes

If, at any time, the Company is required under applicable laws or regulations to withhold, or to make any deduction for, any taxes or take any other action in connection with the exercise of any option hereunder, the Company shall have the right to deduct from all amounts payable in cash any taxes required by law to be withheld therefrom, and, in the case of payments in the form of Common Stock, the Outside Director to whom such payments are to be made shall be required to pay to the Company the amount of any taxes required to be withheld, or, in lieu thereof, the Company shall have the right to retain, or sell without notice, a sufficient number of shares of Common Stock to cover the amount required to be withheld.

10. Administration

The Plan shall be administered by the Board of Directors. Subject to the provisions of the Plan, the Board of Directors shall have the discretionary authority to:

(a) adopt, revise and repeal such administrative rules, guidelines and practices governing the Plan as it shall from time to time deem advisable;

(b) interpret the terms of the Plan and any option issued under the Plan (and any agreements relating thereto), and otherwise settle all claims and disputes arising under the Plan;

(c) delegate responsibility and authority for the operation and administration of the Plan, including to a committee of the Board of Directors, and appoint employees and officers of the Company and its affiliates to act on its behalf and employ persons to assist in fulfilling its responsibilities under the Plan; and

(d) otherwise supervise the administration of the Plan;

provided, however, that the Board of Directors shall have no discretion with respect to the selection of individuals eligible to receive options hereunder, the number of shares of Common Stock covered by any such option or the price or timing of any option granted hereunder (all of which determinations are automatic under the terms of the Plan).

The entire expense of administering the Plan shall be borne by the Company.

11. Compliance with Applicable Law

Notwithstanding any other provision of the Plan, the Company shall not be obligated to issue any shares of Common Stock, or grant any option with respect thereto, unless it is advised by counsel of its selection that it may do so without violation of the applicable federal and state laws pertaining to the issuance of securities or the provisions of any national securities exchange or NASDAQ, and the Company may require any securities so issued to bear a legend, may give its transfer agent instructions, and may take such other steps as in its judgment are reasonably required to prevent any such violation.

12. Amendment and Termination

The Board of Directors may amend or discontinue the Plan at any time and from time to time; provided, however, that (a) unless otherwise required by law, no amendment, alteration or discontinuation shall be made which would impair the rights of an Outside Director with respect to any option which has been granted under the Plan without such individual's consent and (b) no amendment shall be effective without approval of stockholders of the Company if stockholder approval of the amendment is then required pursuant to Rule 16b-3 under the Securities Exchange Act of 1934, as amended, the applicable rules of any national securities exchange or NASDAQ, or the Delaware corporation law or other applicable laws.

13. Effective Date

The effective date of this Plan is August 20, 1997, the date on which it was adopted by the Board of Directors; provided, however, that this Plan is subject to approval by the holders of Class A Stock. The Plan shall terminate on August 19, 2007.

14. Governing Law

The Plan shall be governed by, and construed in accordance with, the laws of the State of Delaware.

1995 Directors' Deferred Compensation Plan

Scholastic Corporation

Amended and Restated May 25, 1999

Contents

| | Page |
|---|------|
| Article 1. Establishment And Purpose | 1 |
| Article 2. Definitions | 1 |
| Article 3. Administration | 3 |
| Article 4. Eligibility and Participation | 4 |
| Article 5. Deferral Opportunity | 5 |
| Article 6. Deferred Compensation Accounts | 6 |
| Article 7. Beneficiary Designation | 7 |
| Article 8. Rights of Participants | 7 |
| Article 9. Amendment and Termination | 8 |
| Article 10. Miscellaneous | 8 |

Scholastic Corporation
1995 Directors' Deferred Compensation Plan

Article 1. Establishment And Purpose

1.1 Establishment. Scholastic Corporation, a Delaware corporation (the "Company"), hereby establishes, effective as of October 1, 1995 (the "Effective Date") and amends and restates as of May 25, 1999, a deferred compensation plan for directors as described herein, which shall be known as the "Scholastic Corporation Directors' Deferred Compensation Plan" (the "Plan").

1.2 Purpose. The primary purpose of the Plan is to provide Directors of the Company with the opportunity to voluntarily defer all or a portion of their Compensation, subject to the terms of the Plan. By adopting the Plan, the Company desires to enhance its ability to attract and retain Directors of outstanding competence.

Article 2. Definitions

Whenever used herein, the following terms shall have the meanings set forth below, and, when the defined meaning is intended, the term is capitalized:

- (a) "Board" or "Board of Directors" means the Board of Directors of the Company.
- (b) "Change in Control" of the Company means, and shall be deemed to have occurred upon, any of the following events:
 - (i) Any Person (defined, for this purpose, to include any syndicate or group deemed to be a "person" under Section 13(d)(3) of the Securities Exchange Act of 1934), other than the Company, any subsidiary of the Company or any employee benefit plan of the Company and other than those Persons in control of the Company as of the Effective Date or any person in which any of the Persons in control of the Company as of the Effective Date has a controlling interest, is or becomes the Beneficial Owner, directly or indirectly, of securities of the Company representing fifty percent (50%) or more of the combined voting power of the Company's then outstanding securities entitled to vote generally in the election of Director; or
 - (ii) There occurs any consolidation of the Company with, or merger of the Company into, any other Person, any merger of another Person into the Company, or any sale or transfer of all or substantially all of the assets of the Company to another Person, other than (a) any such transaction pursuant to which the holders of the Company's common stock and Class A stock immediately prior to such transaction have,

directly or indirectly, at least a majority of the common equity of the continuing or surviving corporation immediately after such transaction and (b) any merger which does not result in any reclassification, conversion, exchange or cancellation of outstanding shares of the Company's common stock or Class A stock or which is affected solely to change the jurisdiction of incorporation of the Company and results in the classification, conversion or exchange of the Company's outstanding shares of common stock or Class A stock solely into shares of the Company's common stock or Class A stock.

However, in no event shall a "Change in Control" be deemed to have occurred, with respect to a Participant, if the Participant is part of a purchasing group which consummates the Change in Control transaction. A Participant shall be deemed "part of a purchasing group" for purposes of the preceding sentence if the Participant is an equity participant in the purchasing company or group (except for: (i) passive ownership of less than one percent (1%) of the stock of the purchasing company; or (ii) ownership of equity participation in the purchasing company or group which is otherwise not significant, as determined prior to the Change in Control by a majority of the nonemployee continuing Directors).

- (c) "Code" means the Internal Revenue Code of 1986, as amended.
- (d) "Company" means Scholastic Corporation, a Delaware corporation.
- (e) "Compensation" means the Retainer and Meeting Fees payable to a Participant by the Company for services performed as a Director during a Plan Year. In no event, however, shall amounts paid in the form of Company stock or stock options qualify as Compensation eligible for deferral under the Plan.
- (f) "Director" means a member of the Board of Directors of the Company on or following the Effective Date of the Plan who receives a Retainer and Meeting Fees for service on the Board of Directors.
- (g) "Disability" shall have the meaning ascribed to such term in the Company's governing long-term disability plan or if no plan is then in effect, shall mean the determination by the Board that the physical or mental condition of a Participant renders such Participant unable to carry out the duties and obligations as a Director of the Company.
- (h) "Effective Date" means the date the Plan becomes effective, as set forth in Section 1.1 herein.
- (i) "Meeting Fees" means fees paid by the Company to a Director, in cash, for attendance at Board and various Board committee meetings during the relevant Plan Year, and which is exclusive of any Retainer earned during such Plan Year. For the purposes of the Plan, "Meeting Fees" shall not include any fees paid or payable in Company stock or stock options.

- (j) "Participant" means any Director who is actively participating in the Plan.
- (k) "Plan" means the Scholastic Corporation Directors' Deferred Compensation Plan.
- (l) "Plan Administrator" means the executive(s) appointed by the Board pursuant to Section 3.1 hereof to administer certain provisions of the Plan as set forth herein, who shall initially be the Vice President of Human Resources of the Company.
- (m) "Plan Year" means the fiscal year of the Company (June 1 to May 31). The first plan year begins on October 1, 1995 and ends on May 31, 1996.
- (n) "Retainer" means the annual cash retainer paid by the Company and earned by a Director during the relevant Plan Year with respect to the Director's service on the Board, and which is exclusive of Meeting Fees earned during such Plan Year. For purposes of the Plan, "Retainer" shall not include any retainer paid or payable in Company stock or stock options.

Article 3. Administration

3.1 Administration of the Plan. The Plan shall be administered by, and in the sole and absolute discretion of, the Board. Subject to the provisions set forth herein, the Board shall take such actions as are required or permitted to be taken by it hereunder and shall have full and complete discretionary authority to interpret the plan, to determine the rights of each Director and the eligibility of a Director to participate in the Plan the amount of benefits payable to a Director and the terms and conditions of each Director's participation in the Plan; to construe and interpret the Plan and any agreement or instrument entered into under the Plan, including any unclear, uncertain or disputed terms thereof; to establish, amend, waive or rescind rules and regulations for the Plan's administration; to amend (subject to the provisions of Article 9 herein) the terms and conditions of the Plan and any agreement or instrument entered into under the Plan and to make all other determinations which may be necessary or advisable for the administration of the Plan. The Board may employ accountants and counsel and other persons to assist or render advice to it, all at the expense of the Company.

Subject to the terms of the Plan, the Board may delegate any or all of its authority granted under the Plan to an executive or executives of the Company.

3.2 Decisions Binding. All determinations and decisions of the Board as to any disputed question or any other issue arising under the Plan, including questions of construction and interpretation, shall be final, conclusive, and binding on all parties.

3.3 Indemnification. Each person who is or shall have been a member of the Board shall be indemnified and held harmless by the Company against and from any loss, cost, liability, or expense that may be imposed upon or reasonably incurred by

him or her in connection with or resulting from any claim, action, suit, or proceeding to which he or she may be a party, or in which he or she may be involved by reason of any action taken or failure to act under the Plan. The Company shall, subject to the requirements and limitations of Delaware law, pay such loss, cost, liability or expense imposed on or incurred by such person promptly upon demand by him or her, whether or not he or she has actually advanced such amount prior thereto.

The Company shall also indemnify each such person who is or shall have been a member of the Board against and from any and all amounts paid by him or her in settlement thereof, with the Company's approval, or paid by him against him or her, provided he or she shall give the Company an opportunity, at its own expense, to handle and defend the same before he or she undertakes to handle and defend it on his or her own behalf.

The foregoing right of indemnification shall not be exclusive of any other rights of indemnification to which such persons may be entitled under the Company's Certificate of Incorporation or Bylaws, as a matter of law, or otherwise, or any power that the Company may have to indemnify them or hold them harmless.

Article 4. Eligibility and Participation

4.1 Eligibility. Each Director of the Company on or following the Effective Date shall be eligible to participate in the Plan. In the event a Participant no longer meets the requirements for eligibility to participate in the Plan, such Participant shall become an inactive Participant retaining all of the rights described under the Plan, except the right to make any further deferrals hereunder. In the event a Director shall cease to serve as a member of the Board of Directors but shall be designated as a Director Emeritus, the Director shall become an inactive Participant, shall not be eligible to make further deferrals under the Plan but shall not be deemed to have terminated service as a Director until such time as his or her Director Emeritus status shall terminate.

4.2 Participation. When a Director first becomes eligible to participate in the Plan, such Director shall, as soon as practicable thereafter, be notified by the Board of his or her eligibility to participate. At such time, the board shall provide such Director with an "Election to Defer Form" which shall be submitted by the Director as provided in Sections 5.2 hereof.

Unless otherwise determined by the Board, once notified of eligibility to participate, each eligible Director shall be entitled to make deferrals with respect to each subsequent Plan Year by submitting an Election to Defer Form as provided in Section 5.2.

4.3 Partial Plan Year Participation. In the event a Director first becomes eligible to participate in the Plan after the beginning of a Plan Year, the Committee may, in its

discretion, allow such Director to complete an Election to Defer Form within thirty (30) days of becoming eligible to participate; such election to be valid and applicable for the Plan Year then in progress. An Election to Defer Form submitted pursuant to this Section 4.3 shall apply only to Compensation earned subsequent to the date on which a valid Election to Defer Form is received by the Board from the Participant.

Article 5. Deferral Opportunity

5.1 Amount Which May be Deferred. A Participant may elect to defer fifty percent (50%) or one hundred percent (100%) of his or her aggregate Compensation in any Plan Year.

5.2 Deferral Election. Participants shall make their elections to defer Compensation under the Plan prior to the beginning of each Plan Year, or not later than thirty (30) calendar days following notification of initial eligibility to participate for a partial Plan Year, as applicable. All deferral elections shall be irrevocable and shall be made on an "Election to Defer Form," as described herein, which shall specify, with regard to the applicable Plan Year, the percentage of Compensation which the Participant elects to defer.

If a Participant makes an initial election to defer Compensation under the Plan, such election, including the designation of the percentage of Compensation to be deferred, shall be valid with respect to the Participant's initial Plan Year of participation, or part thereof, and with respect to each subsequent Plan Year until such time as the Participant makes a subsequent valid election under the Plan with regard to a subsequent Plan Year.

5.3 Length of Deferral. Except as otherwise provided herein, all deferrals hereunder and earnings thereon shall be maintained in deferred status until the expiration of the deferral period specified by the Director (not to exceed 15 years) or termination of service as a Director for any reason, whichever is later.

5.4 Payments of Deferred Amounts. Participants shall receive payment of deferred amounts, together with earnings accrued thereon pursuant to Section 6.2, at the end of the applicable deferral period. Such payment shall be made in cash, in a single lump-sum payment within thirty (30) calendar days of the date specified for payment, as determined under Section 5.3 herein.

Notwithstanding the foregoing, any unpaid deferred amounts and accumulated earnings thereon shall be paid to the Participant in the event that, at any time prior to full payment of such deferred amounts and earnings thereon, a Change in Control of the Company occurs, as determined by the Board. In such event, payment shall be made in a single lump sum, in cash, within thirty (30) calendar days after the effective date of a Change in Control, as applicable.

5.5 Financial Hardship. The Plan Administrator shall have the authority to alter the timing or manner of payment of deferred amounts to a Participant in the event that the Participant establishes severe financial hardship. In such event, the Plan Administrator may, subject to Board approval:

- (a) Authorize the cessation of deferrals by such Participant under the Plan; or
- (b) Provide that all, or a portion, of the amount previously deferred by the Participant shall immediately be paid in a lump-sum cash payment; or
- (c) Provide for such other payment schedule as deemed appropriate by the Plan Administrator, subject to Board approval, under the circumstances.

For purposes of this Section 5.5, "severe financial hardship" shall mean a financial hardship resulting from an extraordinary and unforeseeable emergency arising as a result of one or more recent events beyond the control of the Participant. The Plan Administrator shall have the sole discretion to determine whether the facts of each case constitute a severe financial hardship arising from an extraordinary and unforeseeable emergency, but, in any event, payment of deferred amounts may not be made to the extent such emergency is or may be relieved: (i) through the reimbursement or compensation by insurance or otherwise; (ii) by liquidation of the Participant's assets, to the extent the liquidation of such assets would not itself cause severe financial hardship; and (iii) by cessation of deferrals under the Plan. Deferred amounts shall be paid to the Participant in the case of a severe financial hardship only to the extent reasonably necessary to satisfy the financial hardship.

The existence and severity of the financial hardship shall be judged by the Plan Administrator. The Plan Administrator's decision with respect to the severity of financial hardship and the manner in which, if at all, the Participant's future deferral opportunities shall cease, and/or the manner in which, if at all the payment of deferred amounts to the Participant shall be altered or modified, shall be final, conclusive, and not subject to appeal, except as otherwise determined by the Board.

Article 6. Deferred Compensation Accounts

6.1 Participants' Accounts. The Company shall establish and maintain an individual bookkeeping account for deferrals made by each Participant, and earnings thereon, under Article 5 herein. Each account shall be credited as of the date the amount deferred otherwise would have become due and payable to the Participant. The term "account" and other measures representing the value of a Director's deferrals under the Plan are bookkeeping entries only and shall not constitute property of any kind or any interest in the Company or specific assets thereof.

6.2 Earnings on Deferred Amounts. Compensation deferred under the Plan shall accrue interest on a quarterly basis at a rate equal to the 30 year Treasury Bill rate of interest in effect as of the first business day of each calendar quarter. Each Participant's deferred compensation account shall be credited on the last day of each calendar quarter, with interest computed on the average balance in the account during such quarter. Interest earned on deferred amounts shall be paid out to Participants at the same time and in the same manner as the underlying deferred amounts.

6.3 Charges Against Accounts. There shall be charged against each Participant's deferred compensation account any payments made to the Participant or to his or her beneficiary.

Article 7. Beneficiary Designation

Each Participant shall designate a beneficiary or beneficiaries who, upon the Participant's death, will receive the amounts that otherwise would have been paid to the Participant under the Plan. All designations shall be signed by the Participant, and shall be in such form as prescribed by the Board. Each designation shall be effective as of the date delivered to a Company employee so designated by the Board.

Participants may change their designations of beneficiary on such form as prescribed by the Board. The payment of amounts deferred under the Plan shall be in accordance with the last unrevoked written designation of beneficiary that has been signed by the Participant and delivered by the Participant to the designated employee prior to the Participant's death.

In the event that all the beneficiaries named by a Participant pursuant to this Article 7 predecease the Participant, the deferred amounts that would have been paid to the Participant or the Participant's beneficiaries under the Plan shall be paid to the Participant's estate.

In the event a Participant does not designate a beneficiary, or for any reason such designation is ineffective, in whole or in part, the amounts that otherwise would have been paid to the Participant or the Participant's beneficiaries under the Plan shall be paid to the Participant's estate.

Article 8. Rights of Participants

8.1 Contractual Obligation. The Plan shall create a contractual obligation on the part of the Company to make payments from the Participants' accounts when due. Payment of account balances shall be made out of the general funds of the Company.

8.2 Unfunded Plan. The Plan constitutes an unfunded, unsecured promise of the Company to make payments in the future of the amounts deferred under the Plan and is

intended to constitute a nonqualified deferred compensation plan which is unfunded for tax purposes and for the purposes of Title I of the Employee Retirement Income Security Act of 1974, as amended. Nothing contained in the Plan and no action taken pursuant to the provisions of the Plan shall create, or be construed to create, a trust of any kind, a fiduciary relationship between the Company and any Director or any other person. No special or separate fund shall be established or other segregation of assets made to assure payment of deferred amounts hereunder. No Director or any other person shall have any preferred claim on, or beneficial ownership interest in, any assets of the Company prior to the time that deferred amounts are paid to the Director as provided herein. The rights of a Director to receive benefits from the Company shall be no greater than any general unsecured creditor of the Company.

8.3 Service as a Director. Neither the establishment of the Plan, nor any action taken hereunder, shall in any way obligate (i) the Company to nominate a Director for reelection or to continue to retain a Director; or (ii) a Director to agree to be nominated for reelection or to continue to serve on the Board.

Article 9. Amendment and Termination

The Company hereby reserves the right to amend, modify, or terminate the Plan at any time by action of the Board. No such amendment or termination shall in any material manner adversely affect any Participant's rights to deferred amounts or interest earned thereon, without the consent of the Participant.

Article 10. Miscellaneous

10.1 Notice. Any notice or filing required or permitted to be given to the Company under the Plan shall be sufficient if in writing and hand delivered, or sent by registered or certified mail to the Plan Administrator. Such notice, if mailed, shall be addressed to the principal executive offices of the Company. Notice mailed to a Participant shall be at such address as is given in the records of the Company. Notices shall be deemed given as of the date of delivery or, if delivery is made by mail, as of the date shown on the postmark on the receipt for registration or certification.

10.2 Successors. All obligations of the Company under the Plan shall be binding on any successor to the Company, whether the existence of such successor is the result of a direct or indirect purchase, merger, consolidation, or otherwise, of all or substantially all of the business and/or assets of the Company.

10.3 Nontransferability. Participants' rights to deferred amounts, contributions, and investment return earned thereon under the Plan may not be sold, transferred, assigned, or otherwise alienated or hypothecated, other than by will or by the laws of descent and distribution. In no event shall the Company make any payment under the Plan to any assignee or creditor of a Participant.

10.4 Severability. In the event any provision of the Plan shall be held illegal or invalid for any reason, the illegality or invalidity shall not affect the remaining parts of the Plan, and the Plan shall be construed and enforced as if the illegal or invalid provision had not been included.

10.5 Costs of the Plan. All costs of implementing and administering the Plan shall be borne by the Company.

10.6 Gender and Number. Except where otherwise indicated by the context, any masculine term used herein also shall include the feminine; the plural shall include the singular, and the singular shall include the plural.

10.7 Governing Law. The Plan shall be governed by and construed in accordance with the laws of the state of Delaware without giving effect to any choice or conflict of law provision or rule.

Compensation Arrangement with David Yun

Scholastic Inc. ("Scholastic"), a wholly-owned subsidiary of Scholastic Corporation, has an arrangement with David D. Yun, President of its Scholastic Book Fairs Division, covering the three fiscal years ending May 31, 2001, pursuant to which, in addition to Mr. Yun's annual base salary, currently at the rate of \$400,000 per year, he will be entitled to (i) a bonus potential equal to 40% of his annual compensation in accordance with Scholastic's regular bonus program and (ii) additional bonus amounts of up to \$300,000 in fiscals 1999 and 2000 and up to \$600,000 in fiscal 2001 based on the achievement of specified profit goals for the Scholastic Book Fairs Division during each of such fiscal years, the aggregate amount of which will be payable at the end of the such three year period, provided that Mr. Yun continues to be employed by Scholastic and a specified cumulative annual growth rate in profit of the Scholastic Book Fairs Division is achieved. In addition, at the termination of his employment, Mr. Yun will be given a one-year consulting contract for compensation of \$50,000.

AMENDED AND RESTATED LEASE
 ISE 555 BROADWAY, LLC, LANDLORD
 to
 SCHOLASTIC INC., TENANT
 FOR THE BUILDING KNOWN AS
 555 BROADWAY
 NEW YORK, NEW YORK

TABLE OF CONTENTS

| | Page |
|---|------|
| PREAMBLE..... | 1 |
| ARTICLE ONE LEASE OF PREMISES..... | 1 |
| Section 1.01. Lease of Premises..... | 1 |
| ARTICLE TWO TERM..... | 2 |
| Section 2.01. Initial Term..... | 2 |
| Section 2.02. Renewal Term..... | 2 |
| Section 2.03. Right of First Offer..... | 3 |
| Section 2.04. 557 Property Right of First Offer..... | 7 |
| Section 2.05. Term of this Lease..... | 8 |
| ARTICLE THREE DELIVERY OF PREMISES..... | 8 |
| Section 3.01. Delivery of Premises..... | 8 |
| Section 3.02. Subtenancies..... | 8 |
| Section 3.03. Capital Improvement Funds..... | 8 |
| ARTICLE FOUR RENTAL..... | 9 |
| Section 4.01. Annual Rental..... | 9 |
| Section 4.02. Net Lease..... | 10 |
| Section 4.03. Real Estate Taxes..... | 10 |
| Section 4.04. Renewal Rental..... | 12 |
| Section 4.05. Certain Offset Rights..... | 13 |
| ARTICLE FIVE OPERATIONS AND MAINTENANCE..... | 13 |
| Section 5.01. Standard of Operations..... | 13 |
| Section 5.02. Cost of Operations and Maintenance..... | 14 |
| Section 5.03. Consultative Period..... | 15 |
| Section 5.04. Tenant's Insurance..... | 16 |
| ARTICLE SIX LEASEHOLD MORTGAGES..... | 18 |
| Section 6.01. Mortgageable Lease..... | 18 |

| | | |
|------------------|---|----|
| ARTICLE SEVEN | USE AND ACCESS..... | 19 |
| Section 7.01. | Use..... | 19 |
| Section 7.02. | Access..... | 22 |
| ARTICLE EIGHT | REPAIR AND MAINTENANCE..... | 22 |
| Section 8.01. | Tenant's Obligation to Repair and Maintain..... | 22 |
| ARTICLE NINE | FIRE AND OTHER CASUALTY..... | 23 |
| Section 9.01. | Damage or Destruction..... | 23 |
| Section 9.02. | Waiver of Subrogation Rights..... | 23 |
| ARTICLE TEN | LIABILITY..... | 24 |
| Section 10.01. | Indemnification of the Parties..... | 24 |
| Section 10.02. | Landlord's Exculpation..... | 24 |
| ARTICLE ELEVEN | ALTERATIONS AND FIXTURES..... | 25 |
| Section 11.01. | Alterations by Tenant..... | 25 |
| Section 11.02. | Requirements..... | 27 |
| Section 11.03. | Tenant's Property..... | 28 |
| Section 11.04. | Restoration Obligation..... | 28 |
| Section 11.05. | Landlord's Property..... | 29 |
| ARTICLE TWELVE | CONDEMNATION..... | 30 |
| Section 12.01. | Total Taking..... | 30 |
| Section 12.01. | Partial Taking..... | 30 |
| Section 12.03. | Claims of Landlord and Tenant..... | 30 |
| Section 12.04. | Distribution of the Award..... | 30 |
| Section 12.05. | Temporary Taking of Premises..... | 31 |
| Section 12.06. | Tenant's Obligation to Restore..... | 31 |
| ARTICLE THIRTEEN | REMEDIES AND DEFAULTS..... | 31 |
| Section 13.01. | Default by Tenant..... | 31 |
| Section 13.02. | Landlord's Remedies..... | 32 |
| Section 13.03. | Late Payments..... | 33 |
| Section 13.04. | Prevailing Party..... | 33 |
| ARTICLE FOURTEEN | BANKRUPTCY..... | 34 |
| Section 14.01. | Bankruptcy by Tenant..... | 34 |

| | | |
|----------------------|--|----|
| ARTICLE FIFTEEN | COMPLIANCE WITH LAWS..... | 34 |
| Section 15.01. | Tenant's Compliance with Laws..... | 34 |
| ARTICLE SIXTEEN | ASSIGNMENT AND SUBLETTING..... | 35 |
| Section 16.01. | Assignment by Tenant..... | 35 |
| Section 16.02. | Subletting by Tenant..... | 37 |
| Section 16.03. | Partnership Tenant..... | 40 |
| Section 16.04. | Acceptance of Rent..... | 40 |
| ARTICLE SEVENTEEN | LANDLORD'S ACCESS..... | 40 |
| Section 17.01. | Landlord's Access to Premises..... | 40 |
| Section 17.02. | Limitations on Landlord's Right to Change the Building..... | 40 |
| ARTICLE EIGHTEEN | NAME OF BUILDING; SIGNS..... | 41 |
| Section 18.01. | Tenant's Right to Designate Building Name..... | 41 |
| Section 18.02. | Signs Identifying the Building..... | 41 |
| Section 18.03. | Landlord's Exterior Sign..... | 41 |
| ARTICLE NINETEEN | QUIET ENJOYMENT..... | 42 |
| Section 19.01. | Quiet Enjoyment..... | 42 |
| ARTICLE TWENTY | NON-WAIVER..... | 42 |
| Section 20.01. | Non-Waiver By Either Party..... | 42 |
| ARTICLE TWENTY-ONE | NOTICES; CONSENT TO JURISDICTIONS..... | 42 |
| Section 21.01. | Notices to Landlord or Tenant..... | 42 |
| Section 21.02. | Consent to Jurisdiction..... | 43 |
| ARTICLE TWENTY-TWO | PARTIAL INVALIDITY..... | 45 |
| Section 22.01. | Severability Clause..... | 45 |
| ARTICLE TWENTY-THREE | BROKERAGE..... | 45 |
| Section 23.01. | Brokerage..... | 45 |
| ARTICLE TWENTY-FOUR | SUBORDINATION; NON-DISTURBANCE..... | 45 |
| Section 24.01. | Subordination..... | 45 |

| | | |
|----------------------|---|----|
| Section 24.02. | Non-disturbance..... | 47 |
| ARTICLE TWENTY-FIVE | [Intentionally Omitted]..... | 49 |
| ARTICLE TWENTY-SIX | ARBITRATION OF DISPUTES..... | 49 |
| Section 26.01. | Arbitration..... | 49 |
| Section 26.02. | Payment of Expenses in Certain Circumstances..... | 51 |
| ARTICLE TWENTY-SEVEN | ENVIRONMENTAL MATTERS..... | 51 |
| Section 27.01. | Tenant's Covenants..... | 51 |
| Section 27.02. | Indemnity..... | 51 |
| ARTICLE TWENTY-EIGHT | REPRESENTATIONS AND WARRANTIES OF LANDLORD; INDEMNITIES..... | 52 |
| Section 28.01. | Representations and Warranties of Landlord..... | 52 |
| Section 28.02. | Negative Covenants..... | 52 |
| Section 28.03. | Landlord's Indemnity..... | 53 |
| Section 28.04. | Tenant's Indemnity..... | 53 |
| ARTICLE TWENTY-NINE | LANDLORD'S LIABILITY..... | 53 |
| Section 29.01. | Landlord's Liability..... | 53 |
| ARTICLE THIRTY | [Intentionally Omitted]..... | 54 |
| ARTICLE THIRTY-ONE | MISCELLANEOUS..... | 54 |
| Section 31.01. | Certain Miscellaneous Provisions..... | 54 |
| Section 31.02. | Governing Law..... | 56 |
| Section 31.03. | Memoranda Agreements..... | 56 |
| Section 31.04. | Additional Rent..... | 56 |
| Section 31.05. | Estoppel Certificates..... | 57 |
| Section 31.06. | No Merger..... | 57 |
| Section 31.07. | Business Days..... | 57 |
| Section 31.08. | Hold-over..... | 57 |
| Section 31.09. | Financial Statements..... | 58 |
| Section 31.10. | Ise Sublease..... | 58 |
| Section 31.11. | Transfer of Ownership..... | 58 |
| Section 31.12. | Reduced FAR..... | 58 |

ARTICLE THIRTY-TWO SECURITY.....58
Section 32.01. Security.....58
ARTICLE THIRTY-THREE IDA FINANCING.....60
Section 33.01. IDA Financing.....60

EXHIBIT A DESCRIPTION OF LAND
EXHIBIT B DESCRIPTION OF 557 LAND
EXHIBIT C ELEVATOR LOCATION
EXHIBIT D BATHROOM LOCATION
EXHIBIT E LANDLORD'S SIGN
EXHIBIT F LANDLORD'S LETTER OF CREDIT
EXHIBIT G NON-DISTURBANCE, SUBORDINATION AND ATTORNMENT AGREEMENT
EXHIBIT H EXISTING ENCUMBRANCES, COVENANTS, AGREEMENTS AND EASEMENTS
EXHIBIT I TENANT'S LETTER OF CREDIT

SCHEDULE 1 SUBLEASES
SCHEDULE 2 ANNUAL RENT

INDEX OF TERMS USED IN LEASE

| | Page |
|---------------------------------------|------|
| 557 Building..... | 7 |
| 557 Document..... | 7 |
| 557 Land..... | 7 |
| 557 Landlord..... | 1 |
| 557 Property..... | 7 |
| 557 Right of First Offer..... | 7 |
| AAA..... | 48 |
| Acceptable Purchaser..... | 5 |
| additional out-of-pocket expense..... | 20 |
| Additional Rent..... | 55 |
| Affiliate..... | 53 |
| Alterations..... | 24 |
| Annual Rental..... | 9 |
| Applicable Law..... | 33 |
| Atrium..... | 27 |
| Award..... | 29 |
| Building..... | 2 |
| Building Applications..... | 25 |
| Building Structure..... | 9 |
| business days..... | 55 |
| children..... | 5 |
| Commencement Date..... | 1 |
| Comparable Buildings..... | 17 |
| consideration..... | 52 |
| Consultative Period..... | 15 |
| Date of the Taking..... | 29 |
| domestic institutional lender..... | 18 |
| Easements Agreement..... | 1 |
| Event of Default..... | 30 |
| Excusable Delays..... | 53 |
| Expedited Arbitration..... | 49 |
| Expiration Date..... | 2 |
| Failing Party..... | 11 |
| Fair Rental Value..... | 12 |
| Financial Test..... | 15 |
| First Mortgage..... | 44 |
| First Refusal Notice..... | 4 |
| First Refusal Right..... | 4 |
| first-class..... | 13 |
| Hazardous Materials..... | 50 |

| | |
|---|------|
| IDA..... | 59 |
| IDA Financing..... | 59 |
| Initial Capital Improvement Amount..... | 8 |
| Initial Term..... | 2 |
| initially named Landlord herein..... | 7 |
| initially named Tenant herein..... | 3 |
| Ise Sublease..... | 56 |
| Land..... | 2 |
| Land Owner..... | 6 |
| Landlord..... | 1 |
| Landlord's Mortgagee..... | 45 |
| Landlord's Offer..... | 3 |
| Lawrence..... | 43 |
| Lease..... | 1 |
| Lease Expiration..... | 13 |
| Lease Termination..... | 13 |
| Letter of Credit..... | 44 |
| LLC..... | 5 |
| LPC..... | 40 |
| Luce..... | 43 |
| McDonagh..... | 43 |
| Minimum Net Worth..... | 36 |
| Mortgage..... | 45 |
| mortgageable lease..... | 18 |
| NDA..... | 37 |
| New Contract..... | 4 |
| Notices..... | 41 |
| Option Exercise Date..... | 2 |
| person..... | 53 |
| Premises..... | 2 |
| Prime Rate..... | 53 |
| Prior Lease..... | 1 |
| proceeds..... | 52 |
| Property..... | 3 |
| Prospective Purchaser..... | 4, 6 |
| Purchase Contract..... | 4 |
| purchase price..... | 5 |
| Purchaser Information..... | 5 |
| Pursuing Party..... | 11 |
| Real Estate Taxes..... | 10 |
| Reimbursable Capital Improvements..... | 8 |
| Renewal Option..... | 2 |
| Renewal Term..... | 2 |

| | |
|--|----|
| rent..... | 55 |
| rental..... | 55 |
| Restoration Standard..... | 13 |
| sale..... | 5 |
| Scholastic..... | 6 |
| Second Capital Improvement Amount..... | 8 |
| sell..... | 5 |
| SNDA..... | 45 |
| Structural Alterations..... | 24 |
| Successor Corporation..... | 3 |
| Successor Landlord..... | 47 |
| Tax Protest..... | 11 |
| Tax Year..... | 12 |
| Tenant..... | 1 |
| Tenant's 557 Interest..... | 7 |
| Tenant's Letter of Credit..... | 57 |
| Tenant's Renewal Notice..... | 2 |
| Tenant's separate claim items..... | 29 |
| term of this Lease..... | 8 |
| Threshold Rental..... | 38 |
| Use and Character Criteria..... | 36 |

AMENDED AND RESTATED LEASE

THIS AMENDED AND RESTATED LEASE (hereinafter, the "Lease" or this "Lease"), effective as of August 1, 1999 (the "Commencement Date"), amends and restates in its entirety the existing lease, dated as of January 28, 1992, amended by Amendment of Lease dated as of April 1, 1993 (which was clarified by letter dated May 5, 1995, from Robin L. French of Scholastic Inc. to Mr. Kimio Tabata of Ise Hiyoko, Inc.), Second Amendment of Lease dated as of August 24, 1995, and Memorandum of Agreement dated August 25, 1995 (the lease as so amended prior to this amendment and restatement is referred to herein as the "Prior Lease"), by and between ISE HIYOKO, INC., a Japanese corporation, predecessor in interest to ISE 555 BROADWAY, LLC, a New York limited liability company, having an office at 555 Broadway, New York, New York 10012 (hereinafter, "Landlord"), and SCHOLASTIC INC., a New York corporation, with an office at 555 Broadway, New York, New York 10012 ("Tenant").

PREAMBLE

The parties hereto acknowledge that, notwithstanding the amendment and restatement hereby, the Prior Lease was effective in accordance with its terms up to the Commencement Date of this Lease. The parties further acknowledge that, as of the Commencement Date of this Lease, there are no outstanding notices of default nor, respectively, to the best knowledge of each party, any act or omission of either party which, with notice or lapse of time or both, would be a default under the Prior Lease. Landlord (on behalf of Landlord and Landlord's predecessor in interest) releases Tenant, and Tenant releases Landlord and Landlord's predecessor in interest, from any and all claims, losses, liabilities, damages and obligations arising prior to the Commencement Date of this Lease under or in connection with the Prior Lease. The parties hereto also acknowledge that the Property is encumbered by an Amended and Restated Easements Agreement dated as of August 1, 1999, among Landlord, Tenant, and Carol Blechman, Donald Blechman, Howard Blechman, Noma Joan Blechman, Stephen Blechman, Norma Gastwirth (formerly known as Norma Blechman) and Nauma Blechman Levin (formerly known as Nauma Blechman) (collectively, the "557 Landlord") (such agreement, as it may be amended and/or restated from time to time, the "Easements Agreement"), which Easements Agreement amends and restates in its entirety the easements agreement dated as of July 10, 1998, recorded on August 26, 1998, in Reel 2689, Page 00792.

ARTICLE ONE

LEASE OF PREMISES

Section 1.01. Lease of Premises. Landlord hereby leases to Tenant, and Tenant hereby leases from Landlord, upon and subject to the covenants, agreements, terms, provisions and

conditions of this Lease, for the term and at the rent hereinafter stated, the entire building known as 555 Broadway, New York, New York, presently constructed on the land (the "Land") described in Exhibit A attached hereto, together with all fixtures, equipment, improvements, installations and appurtenances which at the Commencement Date or during the term of this Lease are attached to or used in connection with access to or the operation of the building (the building and such fixtures, equipment, improvements, installations and appurtenances are herein referred to as the "Building" or the "Premises").

ARTICLE TWO

TERM

Section 2.01. Initial Term. The initial term of this Lease (the "Initial Term") shall commence on the Commencement Date, and shall consist of a period of thirty (30) years, and expire on July 31, 2029 (the "Expiration Date"), or on such earlier date on which the term of this Lease may expire or be terminated pursuant to the provisions of this Lease or pursuant to law, or on such later date on which the term of this Lease may expire pursuant to Subsection 2.02(a) hereof.

Section 2.02. Renewal Term. (a) Provided that there shall not then exist an uncured "Event of Default" (as such term is defined in Article 13 below) on the date Tenant delivers Tenant's Renewal Notice (hereinafter defined) to Landlord, Tenant shall have the option (the "Renewal Option") to renew the term of this Lease for one renewal term (the "Renewal Term"), for ten (10) years. The Renewal Option for the Renewal Term shall be exercised by written notice from Tenant to Landlord (the "Tenant's Renewal Notice") to the effect that Tenant desires to renew the term of this Lease, to be given not later than two years prior to the Expiration Date of the Initial Term ("Option Exercise Date"). If Tenant shall fail to give Tenant's Renewal Notice to Landlord on or before the Option Exercise Date, then the Renewal Option shall not lapse and Landlord shall not enter into a lease(s) for the Premises or any portion thereof for any period after the expiration of the Initial Term, unless (i) Landlord shall have given Tenant written notice that Tenant has not exercised Tenant's right to extend the term of this Lease, and (ii) an additional period of fifteen (15) business days, during which additional period Tenant may exercise such right to extend the term of this Lease, has elapsed from receipt of such notice by Tenant. If Tenant shall not have exercised the Renewal Option prior to the expiration of said fifteenth (15th) business day, then Tenant's right to extend the Initial Term shall be deemed to have been waived. The Renewal Term shall be on the same covenants, agreements, terms, provisions and conditions as are contained herein, except as expressly provided herein to the contrary. The rent payable during the Renewal Term shall be as provided in Section 4.04. If Tenant fails to exercise effectively its Renewal Option (and the Renewal Term does not become effective), then the Lease shall terminate on the original Expiration Date as herein provided.

(b) At any time after the Renewal Term has become effective and the rent payable during the Renewal Term determined, Landlord and Tenant, upon request of either, shall execute an agreement supplementary hereto identifying the Annual Rental payable during the Renewal Term.

(c) For all purposes under this Lease, the term "initially named Tenant herein" shall be deemed to refer only to: (i) the corporate entity which is Scholastic Inc. (whether or not known by or using such name), (ii) any "Successor Corporation" (defined below), and (iii) any Affiliate of Scholastic Inc. or of a Successor Corporation. The term "Successor Corporation" shall be deemed to refer to and include any entity which (x) Scholastic Inc. is merged into or consolidated with, or (y) acquires all or substantially all of the assets or stock of Scholastic Inc. From and after the date on which an entity qualifies hereunder as a Successor Corporation, such entity shall, as applicable under this Lease, be deemed to be Scholastic Inc. Within sixty (60) days following the occurrence of any transaction which Tenant believes results in the existence of a Successor Corporation, Tenant shall give Landlord notice thereof. If, within sixty (60) days following receipt of such notice, Landlord shall request evidence to support Tenant's determination that such transaction has resulted in the existence of a Successor Corporation, Tenant shall promptly furnish Landlord with such evidence. Without limiting the nature of what constitutes acceptable evidence, Landlord agrees that the opinion letter of an independent attorney or the certified statement of an independent certified public accountant to the effect that such transaction resulted in the existence of a Successor Corporation shall be deemed presumptive evidence of the same.

Section 2.03. Right of First Offer. (a) Provided that: (i) Tenant is not in default under this Lease after expiration of all applicable notice and cure periods, and (ii) the initially named Tenant herein is then in occupancy of at least 102,500 rentable square feet in the Building, the initially named Tenant herein shall have and is hereby granted a right of first offer to purchase the Building and the Land (the Land and Building being collectively referred to herein as the "Property") from Landlord as hereinafter provided.

(b) Prior to making or accepting an offer to sell all or any portion of the Property, including the creation and sale of all or any portion of a ground leasehold interest in the Land, to any third party, Landlord shall submit to Tenant a written statement ("Landlord's Offer") setting forth all of the material terms and conditions (including the purchase price, terms of any purchase money or other financing and all other material terms) pursuant to which Landlord shall in good faith intend to offer to sell all or any portion of the Property. Within sixty (60) days after Tenant shall have received Landlord's Offer, Tenant shall give Landlord written notice of whether or not Tenant desires to accept Landlord's Offer. If Tenant elects to accept Landlord's Offer, Landlord and Tenant shall within thirty (30) days thereafter execute and deliver a contract of sale which reflects the terms of Landlord's Offer and which is otherwise consistent with contracts for the sale of like property in the Borough of Manhattan in the City of New York. If Tenant elects not to accept Landlord's Offer, or if Tenant shall not have responded to Landlord's Offer prior to the expiration of said sixty (60) day period, then Landlord may thereafter proceed to sell the Property

(or the portion thereof specified in Landlord's Offer) in accordance with the terms and conditions contained in the Landlord's Offer delivered to Tenant, provided that: (i) if, within twelve (12) months after the date on which Landlord shall have given Landlord's Offer to Tenant, Landlord shall not consummate the sale of the Property (or the portion thereof described in Landlord's Offer) to an "Acceptable Purchaser" (defined below) on such terms and conditions as provided in Landlord's Offer (it being agreed for the purposes hereof that, if the purchase price of the Property set forth in the Purchase Contract (defined below) shall be equal to at least ninety-six (96%) percent of the purchase price set forth in Landlord's Offer, then both purchase prices shall be deemed the same), then Landlord shall again be required to comply with the provisions of this Section 2.03 and offer to sell the Property (or the relevant portion thereof) to Tenant on all of the same terms and conditions upon which Landlord intends to sell the Property (or the relevant portion thereof) to a third party; or (ii) if, within said twelve (12) month period, Landlord and a prospective purchaser (the "Prospective Purchaser") have entered into a contract of sale (the "Purchase Contract") and are prepared and (subject to the provisions of this Section 2.03) ready, willing and able to consummate a sale of the Property (or the portion thereof described in Landlord's Offer), and (x) such Prospective Purchaser is not an Acceptable Purchaser or (y) the purchase price of the Property (or the portion thereof described in Landlord's Offer) set forth in the Purchase Contract is less than the purchase price set forth in Landlord's Offer by an amount which is equal to four (4%) percent or more of the purchase price set forth in Landlord's Offer, then Landlord shall promptly give Tenant notice thereof (the "First Refusal Notice") together with a fully executed original of the Purchase Contract and the "Purchaser Information" (defined below), the "New Contract" (defined below) and Landlord's determination as to whether the Prospective Purchaser is an Acceptable Purchaser, and Landlord shall not have the right to consummate such sale to the Prospective Purchaser unless and until Tenant shall fail to timely exercise the First Refusal Right hereinafter set forth.

(c) Upon the occurrence of either of the events set forth in clause (x) or clause (y) of the foregoing Subsection 2.03(b), Tenant shall have the right (the "First Refusal Right") to purchase the Property (or the portion thereof described in Landlord's Offer) on the same terms and conditions made available to the Prospective Purchaser pursuant to the Purchase Contract. Subject to the provisions of Subsection 2.02(g) below, the First Refusal Right shall be exercisable only in the following manner. If Tenant shall elect to exercise the First Refusal Right, then, within thirty (30) days following delivery to Tenant of the First Refusal Notice, the Purchase Contract, the Purchaser Information and the New Contract, Tenant shall notify Landlord that Tenant wishes to exercise the First Refusal Right and execute and deliver to Landlord the New Contract, along with any downpayment or monies payable pursuant thereto upon the execution thereof by the Prospective Purchaser under the Purchase Contract, and any documents or other items required to be delivered in accordance therewith, time being of the essence with respect to the delivery thereof, or be deemed to have waived the First Refusal Right. For purposes hereof, the "New Contract" shall mean a contract of sale, executed by Landlord (as seller) which is identical to the Purchase Contract, except for changes in the name, address and reference to the purchaser (revised to reflect Tenant, as purchaser), and any other changes which are necessary or appropriate to reflect the fact that Tenant is the contract vendee, as opposed to

the purchaser named in the Purchase Contract. Following full execution of the New Contract, Landlord and Tenant shall consummate the transaction contemplated thereby in accordance with the terms of the New Contract. In no event shall Tenant be obligated to pay to Landlord any "break-up" or similar fee, or reimburse Landlord for any costs (including brokerage fees) incurred by Landlord, regardless of whether Landlord is obligated to pay any fee to, or reimburse the expenses of, the Prospective Purchaser in connection with Tenant's exercise of the First Refusal Right.

(d) The term "Acceptable Purchaser" shall be deemed to refer to any person or any Affiliate of such person who owns at least one other rental office building in any urban area of the United States, unless such person (or any Affiliate of such person): (i) has ever been convicted of any felony, or (ii) has been indicted on any felony charge during the five (5) years preceding the execution of the Purchase Contract, or (iii) has been the subject of any voluntary or involuntary bankruptcy, insolvency, reorganization or similar proceedings of the type described in Section 14.01 below during the five (5) years preceding the execution of the Purchase Contract (provided that, in the case of an involuntary proceeding, the same shall not have been dismissed within one hundred twenty (120) days after the commencement of such proceeding), or (iv) is a publisher of any books, magazines, other reading matter or computer software designed primarily for children or to educate children (it being understood and agreed that, for the purpose hereof, the term "children" includes all ages below adult, i.e., from infant through teenager), or (v) has at least ten (10%) percent of its consolidated sales generated from publishing of any kind, or (vi) has or operates under a name which is commonly associated with the publishing industry. Within ten (10) days following the execution of any Purchase Contract, and regardless of whether Landlord believes that the Prospective Purchaser is an Acceptable Purchaser, Landlord shall furnish to Tenant such information (the "Purchaser Information") as shall enable Tenant to determine whether the Prospective Purchaser is an Acceptable Purchaser. If Tenant shall, in good faith, dispute Landlord's determination that the Prospective Purchaser is an Acceptable Purchaser, and Landlord and Tenant shall be unable to resolve such dispute within ten (10) days after Tenant receives the Purchaser Information, then the determination as to whether the Prospective Purchaser is an Acceptable Purchaser shall be determined by arbitration in the manner provided in Article 26 below. Pending resolution of such dispute, Landlord shall not be permitted to consummate the sale contemplated by the Purchase Contract and Tenant shall not be permitted to exercise the aforesaid First Refusal Right.

(e) For the purposes of this Section 203: (i) all references to "purchase price" shall be deemed to refer to the actual purchase price as adjusted to reflect the economic value of all material business terms contained in the Landlord's Offer and Purchase Contract, as the case may be; (ii) the terms "sell" and "sale" shall include any and all leases (other than space leases), or the creation of a ground leasehold estate in the property, or conveyances of any fee, leasehold or lesser interest(s) in all or any part of the Property, but shall not include one or more conveyances of stock of a corporate Landlord or partnership interests of a partnership Landlord or membership interest in a limited liability company ("LLC") Landlord which do not, in the aggregate, (x) exceed forty-nine and ninety-nine one-hundredths of one (49.99%) percent of such

stock or (general or limited) partnership interests, or membership interests or (y) yield control of said corporate, partnership or LLC Landlord to any person other than Mr. Hikonobu Ise (provided, however, that, if said stock shall be conveyed to a corporation or a "master limited partnership" which has its shares traded on a public exchange, and Tenant shall have elected not to exercise the First Refusal Right with respect thereto, then any subsequent conveyances of such publicly traded stock or shares shall not be deemed a "sale" for the purposes of this Section 2.03); and (iii) the term "Prospective Purchaser" shall not be deemed to include any Affiliate of Landlord, provided that (x) such Affiliate shall not have become an Affiliate of Landlord for the purpose of circumventing Tenant's rights under this Section 2.03, and (y) such Affiliate shall continue to be an Affiliate of Landlord for at least one (1) year following consummation of the sale.

(f) Tenant's rights to purchase the Property as set forth in this Section 2.03 shall be contained in the memorandum of this Lease described in Section 31.03.

(g) Supplementing the provisions of Subsection 2.03(c) above, it is the intention of the parties that, if Landlord shall create a ground leasehold estate in the Property, and shall (then or thereafter) sell the Land (i.e., the fee portion of the Property) to any third party (after Tenant shall have declined to purchase the Land under the terms of Subsections 2.03(b) and (c) above), then, if Landlord shall thereafter desire to sell the Building or ground lease to such third party (or any successors, assigns or Affiliates of such third party; collectively, the "Land Owner") and if Tenant shall exercise Tenant's rights pursuant to this Section 2.03 to purchase the Building, then Tenant shall thereafter have the option to purchase the Land from the Land Owner at the then prevailing fair market value thereof (determined, in the event of a dispute, in accordance with the provisions of Article 26 below). Such option shall be exercisable in the following manner. Within thirty (30) days following (i) Landlord having given notice to Tenant that Landlord intends to sell the Building or ground lease to the Land Owner (and provided that such notice correctly identifies the name and address of the Land Owner), and (ii) Tenant's exercise of such option to purchase the Building under this Section 2.03, Tenant shall notify Landlord and the Land Owner whether Tenant desires to exercise said option to purchase the Land. Failure by Tenant to give such notice to Landlord and the Land Owner within said time period shall be deemed a waiver by Tenant of such option to purchase the Land. If Tenant shall elect to exercise such option, then, within thirty (30) days following agreement or a determination of the fair market value of the Land, Tenant and the Land Owner shall execute and exchange a contract of sale which reflects the agreed upon or determined purchase price, and which is otherwise consistent with contracts for the sale of like property in Manhattan. In order to bind the Land Owner to the terms of the foregoing option, Landlord agrees that Landlord shall include the following sentence in any deed or other instrument which is required to be recorded in order to effect a sale of the Land: "If the Grantor [i.e., Landlord], or its successors and assigns, shall at any time hereafter (during the term of that certain lease (the "Lease") dated as of August 1, 1999, as such term may be extended or renewed, between Ise 555 Broadway, LLC, as landlord, and Scholastic Inc. ("Scholastic"), as tenant, of the premises [i.e., 555 Broadway]) sell, be required to sell or accept an offer to sell all or any portion of the Grantor's rights, title and

interest to that certain building located on the premises, or any ground lease of the premises, to the Grantee [i.e., said third party purchaser], or its successors, assigns or affiliates, then the Grantee, or such successors, assigns or affiliates, shall be required to sell the premises to Scholastic, or its successors and assigns, for the then current fair market value thereof, subject to, however, and in accordance with the applicable procedures set forth in Section 2.03 of the Lease."

(h) In the event that Tenant exercises its right to purchase all or any part of the Property as set forth in this Section 2.03 or Tenant otherwise desires to purchase all or any part of the Property, in either case at any time during which the Property is subject to a Mortgage and after the earlier of (i) four (4) years after the date of the Mortgage, and (ii) two (2) years after the date of securitization of the loan secured by the Mortgage, and Tenant does not wish to purchase the Property subject to the Mortgage, then Landlord on behalf of Tenant, at Tenant's request and at Tenant's cost, shall cause the release of the Property from the lien of the Mortgage and other Loan Documents (as such term is defined in the Mortgage) in the manner set forth in the Mortgage.

Section 2.04. 557 Property Right of First Offer. (a) If (x) the initially named Landlord herein (as defined below) is then the owner of the Building, (y) the 557 Building (as hereinafter defined) shall have been constructed, and (z) the initially named Tenant herein shall have obtained permanent financing for the 557 Building, then the initially named Landlord herein shall have and is hereby granted a right of first offer (the "557 Right of First Offer") to purchase such right, title and interest (whether leasehold or fee or options to acquire any interest in the fee) of the initially named Tenant herein as the initially named Tenant herein may then own ("Tenant's 557 Interest") in and to the parcel of land described on Exhibit B attached hereto (the "557 Land") and the building to be constructed on the 557 Land (the "557 Building"; the 557 Land and the 557 Building being collectively referred to herein as the "557 Property") from the initially named Tenant herein as hereinafter provided.

(b) The procedure for granting and exercising the 557 Right of First Offer shall be in accordance with the terms and provisions of Section 2.03 hereof, with the terms therein being used, mutatis mutandis, provided, however, that (i) any sale of all or any portion of Tenant's fee interest in and to the 557 Property and any subsequent sale thereof shall be subject to the terms and conditions of the Option Agreement dated as of October 9, 1996, by and between each of the individuals comprising the 557 Landlord, as optionors, and Tenant, as optionee, and (ii) the concept of "Acceptable Purchaser" as used in Section 2.03 hereof, and all rights of first refusal in connection with the concept of "Acceptable Purchaser", shall not be applicable to the 557 Right of First Offer.

(c) For all purposes under this Lease, the term "initially named Landlord herein" shall be deemed to refer only to: (i) the entity which is ISE 555 Broadway, LLC (whether or not known by or using such name), (ii) any "Successor Corporation" (with such term being used,

mutatis mutandis), and (iii) any Affiliate of ISE 555 Broadway, LLC or of a Successor Corporation.

(d) Landlord's rights to purchase Tenant's 557 Interest as set forth in this Section 2.04 shall be contained in a memorandum or other document (the "557 Document") which, at Landlord's expense, may be filed and recorded of record against the 557 Property.

(e) Landlord and Tenant shall instruct their respective counsel to negotiate the 557 Document in good faith. If the parties are unable to agree upon the form of the 557 Document by December 31, 1999, or such later date as the parties shall agree upon, either party may submit the matter to determination by arbitration pursuant to Article 26 hereof.

Section 2.05. Term of this Lease. The phrase "term of this Lease" shall mean the Initial Term and (if applicable) the Renewal Term.

ARTICLE THREE

DELIVERY OF PREMISES

Section 3.01. Delivery of Premises. Tenant acknowledges that it has possession of the Building on the Commencement Date and Tenant accepts such possession in its present "as is" condition with whatever patent or latent defects may exist. Tenant specifically acknowledges that, except as otherwise provided in Section 3.03 hereof, Landlord has no obligations to Tenant arising out of the present or prior condition of the Building, including, without limitation, the possible existence of any asbestos in any part of the Building. As between Landlord and Tenant, Tenant agrees that currently existing violations of law, violations hereafter arising, or latent or patent defects in the Building are Tenant's responsibility, whether or not any such condition is the result of Landlord's neglect, negligence or failure to perform any obligation that may have existed prior to the Commencement Date of this Lease.

Section 3.02. Subtenancies. Tenant represents that as of the Commencement Date it is in physical occupancy of the entire Building except for space subleased to its subtenants under written leases, counterparts of which have been delivered to Landlord and are identified on Schedule 1 attached hereto.

Section 3.03. Capital Improvement Funds.

(a) Notwithstanding anything to the contrary in this Lease, Landlord agrees to give Tenant, upon the commencement of this Lease, \$1,601,134 (the "Initial Capital Improvement Amount") which amount shall be used by Tenant only to pay for the cost of capital improvements to the Building systems and/or the Building Structure (as hereinafter defined) made after the date hereof and/or the cost of any capital improvements or replacements made

after the date hereof which are necessary or required to enable Tenant, upon the expiration or earlier termination of the term of this Lease, to return the Building to Landlord in compliance with the Restoration Standard, as set forth in Section 5.01 hereof, and shall not be used by Tenant for any other purposes (the foregoing uses are hereinafter referred to as "Reimbursable Capital Improvements"). In addition, Landlord agrees to give to Tenant, on or before July 1, 2014, \$1,750,000 (the "Second Capital Improvement Amount") to pay for Reimbursable Capital Improvements to the Building made either before or after July 1, 2014. Tenant shall deliver to Landlord receipts and invoices for all work paid for with the Initial Capital Improvement Amount and the Second Capital Improvement Amount; it being agreed, however, that the foregoing requirement shall not be a condition to Landlord's obligation to pay the aforesaid amounts to Tenant. Such receipts and invoices shall describe the improvements completed in sufficient detail to establish that such improvements qualified as Reimbursable Capital Improvements. "Building Structure" means the foundation, footings, roof, exterior walls and load-bearing walls and columns of the Building, the floors and ceilings in the Building, and core stairs, elevators, exterior windows, exterior plate glass, window sills and sashes in the Building.

(b) Without in any way limiting any remedies as Tenant may have at law in equity, except that Tenant shall not be permitted to terminate this Lease due to any violation by Landlord of this Subsection 3.03(b), if Landlord shall fail to pay any portion of the Initial Capital Improvement Amount and the Second Capital Improvement Amount when due hereunder, then thirty (30) days after notice to Landlord, Tenant shall have the right to offset any such unpaid amount(s), together with interest thereon, from the date when such amount(s) first came due until the date that the same are fully offset by Tenant or paid to Tenant, at an annual rate equal to the Prime Rate against first rentals then due or thereafter coming due under this Lease.

ARTICLE FOUR

RENTAL

Section 4.01. Annual Rental. (a) Tenant shall pay to Landlord, as rent, without any abatement, setoff or deduction for any reason whatsoever, except as set forth herein, annual base rental (the "Annual Rental") by wire transfer of immediately available federal funds, to the account of Landlord in accordance with wire instructions delivered by Landlord to Tenant by separate letter or to such other account as Landlord may, by notice, instruct, or, provided that Landlord shall give Tenant not less than ten (10) business days written notice thereof, by check payable to Landlord at Landlord's office in the New York City metropolitan area, as set forth on Schedule 2.

From and after the Commencement Date, the Annual Rental shall be payable in twelve (12) equal monthly installments, in advance, on the first business day of each calendar month, the first such payment being due and payable on the Commencement Date. A prorated monthly

installment shall be paid if the Commencement Date is other than the first day of a calendar month or if the term of this Lease terminates on a day other than the last day of a calendar month.

(b) If any of the Annual Rental and/or Additional Rent shall be or become uncollectible, reduced or required to be refunded because of any act or law enacted by a governmental authority in the nature of "rent control" or similar rent restriction, Tenant shall enter into such agreement(s) and take such other steps (without additional expense to Tenant) as Landlord may reasonably request and as may be legally permissible to permit Landlord to collect the maximum rents which from time to time during the continuance of such legal rent restriction may be legally permissible (but not in excess of the amounts reserved therefor under this Lease). If such legal rent restriction shall be terminated during the term of this Lease, (x) the Annual Rental and/or Additional Rent shall become and thereafter be payable in accordance with the amounts reserved herein for the periods following such termination, and (y) Tenant shall pay to Landlord within thirty (30) days after being billed therefor, to the maximum extent legally permissible, an amount equal to (i) the Annual Rental and/or Additional Rent which would have been paid pursuant to this Lease but for such legal rent restriction, less (ii) the rents paid by Tenant during the period such legal rent restriction was in effect.

(c) All amounts payable by Tenant to Landlord pursuant to this Lease, including, without limitation, Annual Rental and Additional Rent (as hereinafter defined), shall be deemed to be rent, and Tenant's failure to pay same shall be considered a failure to pay rent hereunder and Landlord shall be entitled to all rights and remedies provided herein or by law in connection therewith.

(d) Except as expressly set forth herein, Tenant shall be permitted to make payments of Additional Rent, if to Landlord, by check, at the office of Landlord first set forth above, or elsewhere in the New York City metropolitan area as directed from time to time by Landlord's written notice to Tenant.

Section 4.02. Net Lease. This Lease shall be deemed and construed to be a "net lease", and Tenant shall pay to Landlord the Annual Rental free of any charges, assessments, impositions or deductions of any kind, and without abatement, deduction or set-off (except as set forth herein), and Landlord shall not be required to make any payment of any kind or be under any other obligation hereunder, except as otherwise provided elsewhere in this Lease.

Section 4.03. Real Estate Taxes. (a) "Real Estate Taxes" shall mean (i) any and all real estate taxes, assessments and any special assessments, sewer rent and water charges, municipal taxes, county taxes, school taxes or any other governmental charge, general or special, ordinary or extraordinary, of any nature, that are or may be assessed, levied or imposed upon all or any part of the Land and/or the Building, giving effect to any abatements, refunds, reductions, credits and the like, and (ii) all taxes assessed or imposed with respect to the rentals payable hereunder other than general income and gross receipts taxes, but excluding any and all transfer, income, franchise, corporate, estate, inheritance, succession, gifts, gains, capital stock or recording taxes

levied on Landlord or the holder of any mortgage affecting the Land or Building. If at any time during the term of this Lease the methods of taxation prevailing on the date hereof shall be altered so that in lieu of, or as a substitute for or addition to, the whole or any part of such real estate taxes, assessments and special assessments now imposed on real estate, there shall be levied, assessed or imposed (x) a tax, assessment, levy, imposition, license fee or charge as a capital levy or otherwise on the rents received therefrom, or (y) any other substitute or additional tax, assessments, levies, impositions, fees or charges, then the same shall be deemed to be included within the term "Real Estate Taxes" for the purposes hereof, but only if, in any such cases, it shall then be customary that office space of 75,000 or more rentable square feet leases in first-class Manhattan office buildings shall include the same in Real Estate Taxes (unless such inclusion shall be due to such leases having been executed at times when market conditions favored landlords or owners of such buildings).

(b) Tenant shall pay all Real Estate Taxes levied or assessed against the Property or any part thereof when due and payable and prior to the time that any penalty or interest may be charged in respect of the nonpayment thereof, and shall obtain receipted tax bills therefor.

(c) Tenant shall pay to the appropriate taxing authority all Real Estate Taxes on or prior to their respective due dates. If the Commencement Date or the Expiration Date shall be a day other than the first day or last day, respectively, of a Tax Year, then Tenant's Real Estate Tax obligation with respect to such Tax Year shall be pro-rated in accordance with the number of days during such Tax Year which occur within the term of this Lease.

(d) (i) Landlord hereby grants and assigns to Tenant all rights Landlord may have to apply for correction, or petition for reduction, of the assessed valuation of the Building and the Land, to claim and obtain a refund of Real Estate Taxes or otherwise challenge the validity or applicability of any real estate tax, assessment or similar or related charge or law (any such application, petition, claim of refund or challenge, a "Tax Protest"). Tenant shall have the right (except as set forth in 4.03(d)(ii) below), to accept or reject any proposed settlement or compromise of any such Tax Protest during any phase or stage thereof, and to determine whether to appeal from, or in any manner challenge, a denial of any such Tax Protest. Landlord shall fully and timely cooperate with Tenant in the prosecution of any and all Tax Protests and, in connection therewith, Landlord shall execute all such petitions, applications, pleadings or other documentation prepared and/or filed in connection with a Tax Protest as Tenant may reasonably require (including, without limitation, a Real Property Income and Expense statement), and shall make available to Tenant any material and information in Landlord's possession, custody or control relating to the cost of the Building, and any improvements made thereon, the income derived from the operation thereof, financing arrangements and any other facts Tenant may reasonably require. Tenant agrees that the provisions of the foregoing sentence shall not be construed so as to require Landlord to execute any documents which are inaccurate, not in the proper form, or not reasonably necessary (from a legal, practical or knowledge standpoint) to prosecute such Tax Protest.

(ii) During the last two (2) years of the Initial Term (if Tenant has not exercised its Renewal Option) or of the Renewal Term, the grant and assignment referred to in Subdivision 4.03(d)(i) above shall not be applicable except as otherwise set forth in Subdivision 4.03(d)(iii) below. If Landlord shall be the party prosecuting a Tax Protest, Landlord shall have all the rights with respect to the Tax Protest which would have been provided to Tenant pursuant to Subdivision 4.03(d)(i) had Tenant prosecuted the Tax Protest, and Tenant shall fully and timely cooperate with Landlord in the prosecution of the Tax Protest in the manner and to the extent set forth for Landlord in Subdivision 4.03(d)(i) above.

(iii) Notwithstanding anything to the contrary contained in this Subsection 4.03(d), if the party which has the initial control of the right to apply for a Tax Protest pursuant to Subdivision 4.03(d)(ii) shall not have done so prior to the thirtieth (30th) day before the last day for filing a timely Tax Protest, and thereafter fails to do so within ten (10) days following a written demand therefor (hereinafter the "Failing Party") by the other party, then such other party (hereinafter the "Pursuing Party") shall have the right to do so; provided, however, that if, as a result of a Tax Protest filed by the Pursuing Party, there shall be an increase or a reduction or refund in Real Estate Taxes, the Pursuing Party shall be solely responsible for the payment of such increase and shall obtain the benefit of the reduction or refund. If the Landlord is the Pursuing Party the Tenant shall pay to Landlord the amount of such reduction or refund.

(e) "Tax Year" shall mean every twelve (12) consecutive month period, all or any part of which occurs during the term of this Lease, commencing each July 1 or such other date as shall be the first day of the fiscal tax year of The City of New York.

Section 4.04. Renewal Rental. (a) (i) The Annual Rental for the Renewal Term shall be the greater of ninety (90%) percent of the Fair Rental Value (hereafter defined) or the Annual Rental in effect for the year preceding the first year of the Renewal Term.

(ii) Additional Rent shall be payable for the Renewal Term on the same basis as during the Initial Term.

(iii) Within fifteen (15) days after Tenant shall have given Landlord Tenant's Renewal Notice (but not earlier than two years prior to the end of the Initial Term), Landlord shall notify Tenant of Landlord's determination of the Fair Rental Value for the Renewal Term. If Tenant shall disagree with Landlord's determination of the Fair Rental Value, then Tenant, within thirty (30) days after having received Landlord's notice, shall notify Landlord (x) that Tenant disputes Landlord's determination and (y) of Tenant's determination of the Fair Rental Value. If Landlord and Tenant shall be unable to agree upon the Fair Rental Value within twenty (20) days after Tenant notifies Landlord that Tenant disputes Landlord's determination, then either party may immediately or at any time thereafter submit the dispute to determine the Fair Rental Value to arbitration in the manner provided in Article 26.

(b) The term "Fair Rental Value" shall mean the base annual rental which a willing bona fide third party tenant would pay at the time in question to a willing bona fide landlord for a lease for the Renewal Term in its then condition and state of repair (except that any improvements installed at the sole cost and expense of Tenant shall be considered only to the extent that such improvements shall be deemed by the arbitrator to have economic value to a new tenant), on the same terms, covenants and conditions as are contained in this Lease, and considering, in particular, the facts that (i) no rent concessions or work allowances are to be granted or paid by Landlord, (ii) Landlord shall not incur any brokerage fees in connection with the leasing of the Premises to Tenant for the Renewal Term, and (iii) Tenant pays directly for all taxes and operating expenses from the first dollar.

(c) If for any reason the Fair Rental Value shall not have been determined prior to the commencement of the Renewal Term, then, from the commencement of the Renewal Term until the Fair Rental Value, and, accordingly, the Annual Rental, shall have been finally determined, Tenant shall pay Annual Rental at the rate of the average of the Landlord's and Tenant's proposed rent per annum. Upon such final determination and within thirty (30) days after demand therefor, Tenant shall pay to Landlord any deficiency from the commencement date of the Renewal Term to the date of such final determination, or, if Tenant shall have overpaid, Landlord shall refund to Tenant any overpayment, with such deficiency or refund payments to bear interest computed at the Prime Rate from the date of such deficiency or overpayment until the day that the deficiency or refund payment is made by Landlord or Tenant (as the case may be).

Section 4.05. Certain Offset Rights. In the event (i) Landlord fails to pay Tenant any amount owed to Tenant pursuant to Subsections 4.03(d)(iii), 5.03(c) or 8.01(c) of this Lease, (ii) an arbitrator has decided in favor of Tenant with respect to such disputed amount, and (iii) Landlord has failed to pay such amount for fifteen (15) days after the date of the arbitrator's determination, Tenant shall have the right to offset the amount owed Tenant against the Annual Rental and Additional Rent then due or thereafter coming due under this Lease. In addition, if the amount owed to Tenant pursuant to Subsections 4.03(d)(iii), 5.03(c) or 8.01(c) of this Lease does not include interest thereon at the Prime Rate, then Tenant shall also have the right to offset interest on the declining balance of such amount at the Prime Rate from the date such amount should have been paid to Tenant until such interest is fully offset by Tenant or fully reimbursed to Tenant.

ARTICLE FIVE

OPERATIONS AND MAINTENANCE

Section 5.01. Standard of Operations. (a) Tenant covenants to operate and maintain the Building so that upon the expiration of the Lease the Building will be returned to Landlord in a condition meeting the "Restoration Standard" as herein defined.

(b) "Restoration Standard" means that at the expiration or earlier termination of the term of this Lease ("Lease Expiration" or "Lease Termination") the Building will be returned to Landlord in its then "as is" condition provided that: (i) it is not in a state of disrepair, and (ii) considering the nature of Tenant's use of the office space as its corporate headquarters, it has been maintained in a "first-class" manner as hereinafter defined.

(c) "first-class" means that: (i) no maintenance has been deferred; (ii) maintenance has been performed on a regular basis in accordance with industry standards in the operation and maintenance of buildings similar to the Building in age, size and use in Soho; and (iii) to the extent that the requirements of (i) and (ii) of this subdivision (c) imply a need for capital improvement or replacement, Tenant shall have performed the capital improvement or replacement regardless of the time remaining in the then term of this Lease.

(d) In the event Tenant fails to maintain the Building in accordance with Subsection 5.01(c) above, such failure shall not be deemed a default hereunder during the term of this Lease, but Tenant shall be required to meet the Restoration Standard by restoring the Building upon Lease Expiration or Lease Termination to the same condition it would have been in had Tenant fulfilled its obligation to maintain the Building in accordance with Subsection 5.01(c).

Section 5.02. Cost of Operations and Maintenance. (a) Except as otherwise provided in Section 3.03 hereof and to the extent hereinafter specifically otherwise provided, all costs of operations and maintenance (including, without limitation, capital costs and managing agent fees incurred whether or not Landlord exercises its rights under Section 5.02(d) hereof) that are: (i) necessary to meet legal requirements, (ii) necessary to achieve and maintain the Restoration Standard, (iii) otherwise specifically required by this Lease, or (iv) otherwise desired by Tenant, shall be paid for by Tenant.

(b) During the term of this Lease, Tenant shall enter into a management agreement (or successive management agreements) with a professional third party building management firm to operate the Building in a manner which satisfies the operation standard set forth in Section 5.01 hereof. Simultaneously with the execution and delivery of this Lease, Tenant has entered into a management agreement with CB Richard Ellis, Inc., a copy of which has been provided to Landlord. Upon the expiration or termination of the management agreement, Tenant shall enter into a new or renewal agreement with CB Richard Ellis, Inc. or Tenant may, instead, enter into a management agreement with another recognized professional national property management firm with an office in New York City or with a recognized professional New York City management firm that already has under management at least (i) five (5) New York City office buildings and (ii) 1,000,000 square feet of office space. Any management agreement entered into by Tenant shall be terminable by or at the request of Landlord in the event Landlord exercises its rights under Subdivision 5.02(d) below. Tenant shall not self-manage the Building. On a quarterly basis, Tenant shall provide or cause to be

provided to Landlord, for informational purposes only, a copy of quarterly or other periodic or special reports prepared or obtained by the management firm for Tenant relating only to (i) the condition of the building (including the status of capital improvements in progress and planned for the future), (ii) incidents or problems that may have developed with the Premises, and (iii) during the Consultative Period, current financial reports, and during any period when Landlord is managing the Building, current financial reports and financial reports for the preceding three (3) years, in each case, with respect to the budget, income, expenses and operation of the Building. Landlord agrees that all Landlord's requests and other communications regarding the foregoing reports shall be directed to Tenant rather than said management firm.

(c) Upon the completion of construction of the 557 Building, Tenant shall provide an adequate and appropriate space for the management of the Building in the 557 Building.

(d) Landlord has the right to hire a management firm (CB Richard Ellis, Inc. or another meeting the requirements of Subdivision 5.02(b) above) to perform the management functions described above, but only if and for so long as both of the following two conditions exist: (i) Tenant is not in physical occupancy of at least 102,500 rentable square feet of office space in the Building, and (ii) Tenant does not meet the Financial Test (as hereinafter set forth). During the time the management firm has been hired by Landlord, except in emergencies, Landlord shall obtain Tenant's approval (which approval shall not be unreasonably withheld or unduly delayed), or shall cause the managing agent to obtain Tenant's approval (which approval shall not be unreasonably withheld or unduly delayed), prior to Landlord or such managing agent making a decision which increases the cost of any line item in the operating expense budget by \$5,000 or more. Any management agreement entered into by Landlord shall be terminable by or at the request of Tenant if and when either of the above conditions no longer exists. If Landlord exercises its rights under this Section 5.02(d), Landlord shall manage the Building in accordance with Sections 5.01(b) and (c). Landlord shall not self-manage the Building.

(e) As used in this Lease, "Financial Test" shall mean a credit rating not lower than Standard & Poors Senior Long Term Debt rating of BB+ (i.e., as of the Commencement Date, one Standard & Poors rating level below "investment grade" of BBB-). In the event Standard & Poors no longer exists or no longer publishes credit ratings, the parties shall agree to a comparable substitute credit rating agency. If the parties are unable to agree to a substitute credit rating agency, the issue shall be resolved by arbitration in accordance with Section 26.01.

Section 5.03. Consultative Period. The following provisions shall obtain during the last two years (the "Consultative Period") of the Initial Term (if Tenant has not exercised its right to renew) or of the Renewal Term:

(a) The parties will consult with one another with respect to any significant management issues. The purpose of consultation shall be a good faith effort by Landlord and

Tenant to agree on appropriate management measures and capital and non-capital expenditures to meet the Restoration Standard in a commercially reasonable manner.

(b) Tenant shall be obligated to make and pay for capital improvements only if (i) needed to meet the Restoration Standard or (ii) desired by Tenant. Tenant shall elect whether to make such other capital improvements as requested by Landlord or to permit Landlord to make them, in either event at Landlord's cost, provided that the making of such capital improvements shall not materially interfere with Tenant's use or occupancy of any portion of the Property or access thereto.

(c) If Tenant shall be performing a capital improvement needed to meet the Restoration Standard, Landlord may, on reasonable notice, require Tenant to upgrade the same (but only if such incremental work shall not materially interfere with Tenant's use or occupancy of any portion of the Property or access thereto), in which event the additional cost attributable to the upgrade shall be paid for by Landlord on a periodic basis that generally corresponds to the progress of the work.

(d) If Landlord has exercised its rights under Section 5.02(d), Landlord may not require Tenant to pay for non-capital expenditures other than the same types of items and magnitudes included in Tenant's budgets or actual expenditures in the three years preceding the Consultative Period.

(e) Disputes regarding (i) whether an issue is a significant management issue, (ii) a failure to agree on whether a proposed capital improvement is needed to meet the Restoration Standard or on the additional cost attributable to an upgrade or (iii) the types and magnitudes of proposed non-capital expenditures, shall be resolved by arbitration in the manner provided by Article 26 below; provided that any arbitrator acting under Section 26.01 in connection with any of the foregoing matters shall be a specialist (i.e., a building manager, engineer, architect, etc.) in the issue with which the arbitration is concerned, and shall have been actively engaged in such specialty for a period of at least ten (10) years before the date of his or her appointment as an arbitrator hereunder.

Section 5.04. Tenant's Insurance. Tenant shall maintain in full force and effect at all times during the term of this Lease:

(a) standard all-risk fire and casualty insurance (including, without limitation and if commercially reasonable, flood and earthquake coverages), with so-called "law and ordinance" coverage, covering the Building and all leasehold improvements now or hereafter in the Premises in an amount at least equal to replacement cost of the Building (excluding foundation and excavation costs) and said leasehold improvements at the time in question, but in no event less than such coverage as is required to avoid co-insurance provisions; the policy shall contain a replacement cost and agreed amount endorsement.

(b) commercial general liability insurance, including a contractual liability endorsement, which shall include bodily injury, personal injury, death, independent contractors, completed operations and property damage coverages, having a combined single limit amount of not less than \$15,000,000 against all claims, demands or actions with respect to damage, injury or death made by or on behalf of any person or entity, in respect of the Premises and the roof of the Building, or arising from or related to the conduct and operation of Tenant's business in the Premises.

(c) employer's liability insurance with a minimum limit of \$1,000,000 for bodily injury;

(d) worker's compensation, disability and other similar insurance in statutory limits covering all persons employed by Tenant (and Tenant shall cause Tenant's managing agent to maintain the same covering all persons employed by Tenant's managing agent) or in connection with any work performed by or on behalf of Tenant in the Building (or paying for comparable insurance taken out by Landlord for persons employed by Landlord or Landlord's managing agent if Landlord exercises its rights contained in Section 5.02(d) hereof);

(e) [intentionally omitted]

(f) rent or business interruption insurance in an amount sufficient to pay the Annual Rental and estimated Real Estate Taxes during any period in which 25% or more of the Building is rendered unuseable for Tenant's business and Tenant is obligated hereunder to rebuild; and

(g) such other insurance coverage as is customarily carried by net lessees in respect of buildings similar to the Building in Soho ("Comparable Buildings").

Commencing with the fifth (5th) anniversary of the Commencement Date, Landlord may from time to time during the term of this Lease (but not more frequently than once during any period of five (5) years) require that the amount and type of the insurance to be maintained by Tenant hereunder be increased, so that said amount and type adequately protects Landlord's interest; provided, however, that Landlord may not require Tenant to procure any insurance which (i) exceeds in type or amount the insurance which is then being customarily required to be maintained of net lessees of Comparable Buildings, or (ii) is not available at commercially reasonable rates. Said policies of insurance may be written as primary policy coverage or a combination of primary and excess coverage and shall be issued by good and solvent companies, having a rating of not less than "A:VIII" in Best's Key Rating Guide, licensed to do business in the State of New York, or other companies approved by Landlord, which approval shall not be unreasonably withheld or delayed. Landlord hereby approves the Atlantic Mutual Insurance Co. and Centennial Insurance Company (or any of their affiliates or subsidiaries) as Tenant's insurer. Said policies required under Subparagraphs (b), (c) and (d) above shall name Landlord and Landlord's Mortgagee as additional insureds as their interests may appear, and the policy

required under Subparagraph (a) above shall name Landlord as an additional insured and Landlord's Mortgagee as a mortgagee and loss payee as their interests may appear and shall be payable and the proceeds made available to Tenant as provided in Article 9 hereof. Said policies (if and to the extent that the same shall be customary) shall provide that the insurer will give at least thirty (30) days prior written notice of cancellation of said policy or of any material modification thereof. Within twenty (20) days following the execution of this Lease, and at least twenty (20) days prior to the expiration of any such policy or renewals thereof, Tenant shall furnish to Landlord a certificate or certificates of insurance (including appropriate endorsements showing Landlord as an additional insured) certifying that the insurance coverage required hereby is in force. Any insurance required by the terms of this Lease to be carried by Tenant may be under a blanket policy (or policies) covering other properties or locations of Tenant and/or its related or affiliated corporations. If such insurance is maintained under a blanket policy, Tenant shall procure and deliver to Landlord a statement from the insurer or authorized agent of the insurer setting forth the coverage maintained and the amounts thereof allocated to the risks at the Land and Building intended to be insured hereunder, which amounts shall not be less than the limits set forth in clauses (a) through (g) of this Section 5.04. Tenant shall promptly give Landlord a copy of any notice of violation of insurance requirements received by Tenant from any insurance carrier of Tenant.

ARTICLE SIX

LEASEHOLD MORTGAGES

Section 6.01. Mortgageable Lease. Notwithstanding anything to the contrary contained in this Lease, Tenant shall, upon notice to Landlord, have the right to mortgage this Lease and Tenant's rights hereunder without the consent of Landlord (except that the consent of Landlord, not to be unreasonably withheld or delayed, shall be required if the proposed mortgagee is not a domestic institutional lender), and Landlord acknowledges that, in such event, it is the intention of the parties that the rights of Tenant under this Lease shall be mortgageable in accordance with institutional mortgage lending practices (i.e., this Lease shall be a "mortgageable lease"). Accordingly, Landlord shall (subject to the limitations set forth below) consent to and make whatever reasonable changes to this Lease as may be reasonably required, from time to time, by a domestic institutional lender making a loan secured by an exculpated, unguaranteed leasehold mortgage upon the interest of Tenant under this Lease, including, but not limited to, payments to Tenant or mortgagee in condemnation for the amount set forth in Section 12.04 hereof, rights to notice and opportunity to cure, recording of notice of the mortgagee's rights, elimination of any non-curable default obligations, estoppel certificates and the right to a replacement lease in the event of a termination of this Lease if the leasehold mortgagee cures monetary defaults prior to the expiration of the applicable grace period(s). Tenant shall have the unrestricted right to collaterally assign this Lease, provided that the assignee coming into possession of the Premises by reason of such assignment satisfies the use and Minimum Net Worth requirements set forth in Subsection 16.01(c) below. Tenant agrees that Landlord shall not be required to make any

changes to this Lease which shall (i) extend or shorten the term of this Lease, (ii) increase any of Landlord's obligations or decrease any of Landlord's rights under this Lease, except to a de minimis extent, or (iii) affect Tenant's obligation to pay Annual Rental and Additional Rent. For the purposes of this Lease, the term "domestic institutional lender" shall mean a savings bank, a savings and loan association, a commercial bank, a trust company, which is organized under the laws of the United States or Canada and subject to the supervision of the Comptroller of the Currency, the Federal Reserve Board or a state banking superintendent or commissioners, an insurance company, an investment bank, a real estate mortgage investment conduit, a trustee in securitization, or any assignee of any thereof (which assignee must also be a domestic institutional lender) organized and existing under the laws of the United States or Canada, a real estate investment trust sponsored by a domestic institutional lender (which is not another real estate investment trust), or a union, federal, state, municipal or secular employee's welfare, benefit, pension or retirement fund.

ARTICLE SEVEN

USE AND ACCESS

Section 7.01. Use. (a) Tenant, its permitted assignees, permitted subtenants and other permitted occupants of the Building or portions thereof shall have the right to use the Building and all portions thereof for general and executive office use and all purposes ancillary thereto, consistent with ancillary uses in Comparable Buildings, as well as for retail use where permitted by Applicable Law.

(b) Without limiting the foregoing, Tenant shall have the right to use portions of the Building for the following specific purposes:

(i) medical departments for employees of Tenant;

(ii) cafeterias, kitchens, pantries and dining rooms for the feeding of employees and guests of Tenant;

(iii) gallery and other retail uses (on the basement, first and second floors of the Building only);

(iv) vending machines and snack bars for the sale of food, confections, nonalcoholic beverages, cigars and cigarettes, newspapers and other convenience items to employees of Tenant;

(v) business machines, equipment for printing, producing and reproducing forms, circulars and other materials used in connection with the conduct of Tenant's business,

and equipment for the production of such photostats and other material as Tenant may require for the transaction of its business, but in either instance not for sale to others;

(vi) libraries;

(vii) computer and other electronic data processing equipment;

(viii) auditoriums;

(ix) board rooms, conference rooms and screening rooms;

(x) training rooms for employees and guests of Tenant;

(xi) facilities for storage of equipment and supplies in connection with the foregoing;

(xii) safe and vault areas;

(xiii) audio-visual and closed circuit television facilities;

(xiv) a gymnasium, exercise and health room facility for employees of Tenant, including, without limitation, locker rooms, showers and related facilities;

(xv) radio and other electronic communication facilities;

(xvi) child care facilities; and

(xvii) retail sale of books and other educational materials.

(c) Without limiting the foregoing, Tenant shall have the right to use the roof of the Building for the following outdoor purposes:

(i) dining area for the use by employees and guests of Tenant;

(ii) lounge area for employees and guests of Tenant;

(iii) parties and social gatherings of employees and guests of Tenant;

(iv) area for microwave, satellite or other antenna communication system; and

(v) such other outdoor roof activities as permitted by and in accordance with Applicable Law in connection with such use.

(d) To the extent any of the specific uses set forth in Subsections (b) and (c) above or any other special use to which Tenant is permitted to put the Premises requires an amendment to the existing certificate of occupancy, Tenant shall be responsible for obtaining and maintaining the same at Tenant's cost, as well as any other governmental permit, approval or license required by Applicable Law in connection therewith. Landlord shall cooperate with Tenant and shall execute all applications, authorizations and other instruments (but only if the same shall be accurate, in the proper form and reasonably necessary for Landlord to execute) reasonably required to enable Tenant to fulfill Tenant's responsibilities under this Subsection (d); provided, however, that Landlord shall not be required to incur any additional out-of-pocket expense therefor (it being agreed and understood, however, that any cost or expense which Landlord is or would be contractually obligated or legally liable to pay to any third party or any governmental agency for any reason other than the cooperation requirement set forth in this Subsection (d) shall not be deemed or construed an "additional out-of-pocket expense"), unless Tenant agrees to reimburse Landlord for the same. Tenant agrees to furnish Landlord with a copy of Tenant's applications in connection therewith, and to furnish Landlord a copy of the amended certificate of occupancy within a reasonable period of time following Tenant's receipt thereof. The foregoing provisions are not intended to be deemed Landlord's consent to any use of the Premises not otherwise permitted hereunder. Landlord does not represent that any of the uses of the Premises specified in Subsections 7.01(b) and (c) above are or shall be in compliance with Applicable Law.

(e) Tenant shall not permit or conduct any obscene performances within the Premises, nor permit use of the Premises for nude modeling, or as a sex club of any sort, or as a "massage parlor". Obscenity is defined here as it is in Penal Law '235.00. Tenant shall not use or occupy the Building, or knowingly permit any agent, employee, licensee or invitee of Tenant to use or occupy the Premises, or do anything in the Building, or knowingly permit anything to be done in, brought into or kept on the Premises by any agent, employee, licensee or invitee of Tenant, which: (i) violates the certificate of occupancy for the Building; (ii) causes injury to the Building or any of Landlord's equipment, facilities or systems therein; or (iii) constitutes a violation of Applicable Laws or the requirements of relevant insurance bodies. Landlord agrees not to enforce the provisions of this Subsection 7.01(e) against Tenant in a commercially unreasonable manner.

(f) Tenant shall not use, or knowingly permit anyone to use, the Premises or any part thereof, for gambling activities or for the regular conduct of auctions, except that Tenant may conduct public art and similar auctions on the first and second floors of the Building, occasional other auctions for charitable, educational or community purposes, and private auctions of Tenant's own assets.

(g) Tenant shall not commit waste upon the Premises.

Section 7.02. Access. Tenant and its permitted subtenants and other permitted occupants of the Premises, and their employees, agents, licensees and invitees, shall have access to the Premises at all times, 24 hours per day, every day of the year. Notwithstanding the foregoing, Landlord shall have the right to close the Building one (1) day per year if necessary to prevent any easements by prescription.

ARTICLE EIGHT

REPAIRS AND MAINTENANCE

Section 8.01. Tenant's Obligation to Repair and Maintain. (a) Tenant shall, at its sole cost and expense, keep and maintain in good repair and working order and make all necessary repairs and replacements to and perform all necessary maintenance upon the Building (including, without limitation, any base building systems) and public portions of the Building and all parts thereof, including, without limitation, the foundation, footings, roof, exterior walls and load-bearing walls and columns of the Building, the plumbing, electrical and mechanical systems serving the Building, all floors and ceilings in the Building, all core stairs, all elevators, all exterior windows, exterior plate glass, window sills and sashes in the Building and all Building equipment within and serving the Building.

(b) Tenant shall also be responsible for all repairs, interior and exterior, structural and non-structural, ordinary and extraordinary, foreseen and unforeseen, in and to the Building, the roof, and all of Tenant's leasehold improvements.

(c) Landlord shall be responsible for all repairs to the Building or any part thereof, the need for which arises out of the wrongful or negligent act or omission of Landlord or of Landlord's employees, agents (including, without limitation, Landlord's managing agent during any period when Landlord has hired a management firm under Section 5.02(d) hereof), contractors or invitees, which wrongful or negligent act or omission occurs after the Commencement Date. In addition, and notwithstanding the foregoing, in the event Landlord has exercised its right to hire a management firm under Section 5.02(d), Landlord shall be responsible for all repairs to the Building or any part thereof to the extent the need therefore arises out of Landlord's failure to perform its obligations to manage the Building in accordance with the terms of this Lease. All repairs in and to the Building for which Landlord is responsible in accordance with this Subsection 8.01(c) shall be promptly performed by Landlord in compliance with all Applicable Laws. If Landlord shall default in the performance of any of Landlord's obligations under this Subsection 8.01(c), or if Landlord shall fail to make any payment that Landlord agrees or is obligated to make pursuant to this Subsection 8.01(c), then Tenant, after five (5) business days notice to Landlord (and without notice in the case of an emergency), may perform the obligation, or, in the case of a payment due others, make the payment, as Landlord's agent. The full amount of the cost and expense so incurred by Tenant or the payment so made, together with the amount of any reasonable attorneys' fees in instituting,

prosecuting or defending any action or proceeding by reason of any default of Landlord hereunder, shall be paid by Landlord to Tenant with interest at the Prime Rate thereon from the date so paid or incurred by Tenant until paid by Landlord.

ARTICLE NINE

FIRE AND OTHER CASUALTY

Section 9.01. Damage or Destruction. (a) Except to the extent otherwise provided in Subsection (b) of this Section 9.01, (i) Tenant at its sole cost and expense shall promptly proceed to reconstruct, restore and repair any damage or destruction to the Premises by fire or other casualty to a condition substantially equivalent in value and function to the extent permitted by law to its former condition; and (ii) Tenant specifically waives any rights it might otherwise have under New York Real Property Law ' 227 to any abatement of rent or other obligations under this Lease or to any right to terminate this Lease.

(b) (i) If, during the 19th or 20th years of the Initial Term or during the last two years of the Initial Term (if Tenant has not exercised its Renewal Option) or during the last two years of the Renewal Term, more than 25% of the Building shall be damaged by fire or other casualty, Tenant may elect not to reconstruct, restore or repair, and may terminate this Lease on thirty (30) days written notice to Landlord given at any time after the date of the fire or other casualty. Tenant, in that event, will assign to Landlord all its rights under the fire and extended coverage insurance policies required to be maintained under this Lease, and subject to a pro-ratio and apportionment of Annual Rental and Real Estate Taxes as of the date of the casualty, no further rentals shall be due hereunder.

(ii) If, during the first eighteen (18) years of the Initial Term, more than 25% of the Building shall be damaged by fire or other casualty, Tenant shall be obligated to rebuild as required by Section 9.01(a) hereof but Tenant may, at its option, elect to terminate this Lease as of the 18th anniversary of the Commencement Date by giving Landlord a notice to that effect no later than the earlier of (i) one year after the date of the fire or casualty and (ii) the eighteenth anniversary of the Commencement Date.

Section 9.02. Waiver of Subrogation Rights. (a) The parties hereto hereby waive any and all rights of recovery, claim, action or cause of action, against the other party (and, in the case of Tenant, such waiver shall extend to Tenant's permitted subtenants and other occupants of the Premises), their respective agents, partners, officers and employees, for any loss or damage that may occur to the Building and to all property, whether real, personal or mixed, located in the Building, by reason of fire, the elements or any other cause normally insured against under the terms of standard "all risk" insurance policies of the type prescribed from time to time for use in respect of the Building, regardless of cause or origin, including the negligence of the parties hereto or of any such subtenants or other occupants of the Building, their respective agents and

employees. Each party agrees to provide the other with reasonable evidence of its insurance carrier's consent to such waiver of subrogation. Nothing contained in this Section 9.02 shall be deemed to relieve either party of any duty imposed elsewhere in this Lease to repair, restore or rebuild provided for elsewhere in this Lease.

(b) Landlord and Tenant shall each include in its fire insurance policies appropriate clauses pursuant to which the insurance companies (i) waive all rights of subrogation against the other and each party's mortgagee with respect to losses payable under such policies and/or (ii) agree that such policies shall not be invalidated should the insured waive in writing prior to a loss any or all rights of recovery against any party for losses covered by such policies.

ARTICLE TEN

LIABILITY

Section 10.01. Indemnification of the Parties. Subject to the provisions of Section 9.02, Landlord and Tenant each agree to indemnify and save the other (and such other's partners, directors, employees, shareholders, members and principals) harmless from any and all claims with respect to bodily injury or property damage: (i) arising from any breach or default on the part of the indemnifying party in the performance of any covenant or agreement on its part to be performed pursuant to the terms of this Lease, or (ii) arising from the indemnifying party's negligence or the negligence of any of its agents, contractors or employees, including, without limitation, all costs, reasonable counsel fees and disbursements, expenses and liabilities incurred in connection with any such claim; and if any action or proceeding is brought against either Landlord or Tenant by reason of any such claim, the indemnifying party upon notice from the party to be indemnified covenants to resist or defend such action or proceeding at its expense. In addition to the foregoing and subject to the provisions of Section 9.02, Tenant agrees to indemnify and save Landlord harmless from any and all claims, accidents, damages or injuries whatsoever occurring in the Building or on the roof of the Building, unless and to the extent caused by the negligence or willful misconduct of Landlord or an Affiliate of Landlord or of their respective agents, employees, contractors or invitees. The party to be indemnified shall not settle any such action without the consent of the indemnifying party, and shall permit the indemnifying party to participate in the defense of any such action.

Section 10.02. Landlord's Exculpation. Except as otherwise expressly provided in this Lease, Landlord shall not be liable to Tenant for any loss or injury or damage to Tenant, or to Tenant's property, irrespective of the cause of such injury, damage or loss, and Landlord shall not be liable for any damage to property of Tenant entrusted to employees of Landlord or for loss of or damage to any such property by theft or otherwise, except, in all such cases, to the extent caused by or resulting from (i) the failure by Landlord to fulfill any of Landlord's obligations under this Lease, or (ii) the negligence or willful misconduct of Landlord, or of an Affiliate of

Landlord or of their respective agents, employees, contractors or invitees (subject, however, to the provisions of Section 9.02 above).

ARTICLE ELEVEN

ALTERATIONS AND FIXTURES

Section 11.01. Alterations by Tenant. (a) At any time, and from time to time during the term of this Lease, Tenant may make all such improvements, additions, changes and alterations to the Premises (collectively, "Alterations") as Tenant shall deem necessary or desirable.

(b) Alterations to the building systems which neither constitute waste nor materially diminish the value of the Building are not Structural Alterations. Other Alterations to building systems are Structural Alterations.

(c) "Structural Alterations" are Alterations that (other than to a de minimis extent): (i) reduce the value of the Building, (ii) reduce the marketability of the office space of the Building for single or multi-tenancy, (iii) affect the structural integrity of the Building (i.e., load-bearing components), (iv) affect the facade or other exterior appearance of the Building, or (v) if made to Building Systems, constitute waste.

(d) Tenant shall give Landlord at least ten (10) business days prior written notice of any proposed Alteration (Structural or otherwise) in sufficient detail for Landlord to determine whether the proposed Alteration is a Structural Alteration; provided that Tenant need not give Landlord notice of any proposed Alteration that is clearly not a Structural Alteration.

(e) If a proposed Alteration is a Structural Alteration, Landlord may require the restoration at Lease Expiration of the portions of the Building affected by the Structural Alteration, but only if Landlord shall have given Tenant a written notice to that effect within ten (10) business days after receiving Tenant's notice of the proposed Structural Alteration.

(f) Notwithstanding the foregoing provisions of this Section 11.01, Tenant may proceed to perform any Alteration (whether or not a Structural Alteration) without having received Landlord's notice described in Section 11.01(e) hereof. Tenant acknowledges that it proceeds at its own risk (i.e., Landlord may determine that the proposed Alteration is a Structural Alteration, and require the restoration at Lease Expiration of the portions of the Building affected by the Structural Alteration) if Tenant fails to wait for the earlier of Landlord's notice or the lapse of the ten (10) business days as stated in Section 11.01(e). In the event Tenant's notice to Landlord regarding the proposed Structural Alteration does not accurately describe or cover the Alteration that is ultimately built (as shown in the "as built" plans delivered to Landlord upon completion of the Alteration pursuant to Section 11.02(c)), Landlord shall have the right to

require the restoration at Lease Expiration of the portions of the Building affected by such Structural Alteration.

(g) Promptly upon the completion of any Structural Alteration as to which Landlord has reserved a right to require restoration, Tenant shall inform Landlord in writing as to Tenant's good faith reasonable estimate of the cost of restoration.

(h) If Landlord or Tenant disputes whether (A) an Alteration is a Structural Alteration or (B) Tenant's good faith reasonable estimate of the cost of restoration is, in fact, a commercially reasonable estimate, the dispute shall be settled by Expedited Arbitration commenced by either party (x) within six (6) months after the delivery by Tenant to Landlord of the notice set forth in Subsection 11.01(d) above (or if no such notice has been given within six (6) months from the date Landlord has actual knowledge of the information that Tenant is required to include in its notice to Landlord pursuant to Subsection 11.01(d) above), in the case of a dispute as to the matter set forth in clause (A) of this Subsection 11.01(h), or (y) within six (6) months after the delivery by Tenant to Landlord of the writing set forth in Subsection 11.01(g) above, in the case of a dispute as to the matter set forth in clause (B) of this Subsection 11.01(h). A failure to commence to arbitrate the Landlord's determination that an Alteration is a Structural Alteration or Tenant's estimate of the cost of restoration within the six (6) months shall constitute a waiver by both parties of any objections to the determination or estimate, as the case may be.

(i) Notwithstanding anything to the contrary set forth in Subsection 11.01(e) above, Tenant may add, without having to restore, (i) two passenger elevators (in the location and having the operational specifications shown on Exhibit C attached hereto) and (ii) bathrooms (in the locations shown on Exhibit D attached hereto).

(j) Landlord shall reasonably cooperate with Tenant in connection with the performance of Alterations, and sign any application or other instrument ("Building Applications") for any permit, license, certificate, approval or authorization required to be obtained under Applicable Law in connection with any Alteration, provided the relevant Building Application is accurate, in proper form required by Applicable Law and Landlord's execution is reasonably necessary; provided, however, that Landlord shall not be required to incur any additional out-of-pocket cost or expense therefor (it being agreed and understood, however, that any cost or expense which Landlord is or would be contractually obligated or legally liable to pay to any third party or any governmental agency for any reason other than the cooperation requirement set forth in this Subsection (j) shall not be deemed or construed an "additional out-of-pocket expense"), unless Tenant agrees to reimburse Landlord for the same.

(k) In addition to Landlord's cooperation obligation contained in Subsection (j) above, at Tenant's request, Landlord shall transfer to Tenant and the managing agent of the Building, to the extent permitted by Applicable Law, the joint (but not several) authority to

execute as "owner" all Building Applications during such times as Landlord has not exercised its rights under Section 5.02(d) hereof.

(l) All Building Applications filed by or on behalf of Tenant shall be signed both by Tenant and the managing agent of the Building. Tenant shall deliver or cause to be delivered to Landlord a copy of each Building Application promptly after it has been signed by Tenant and the managing agent of the Building.

(m) During the performance of any Structural Alteration which requires the issuance of a New York City Building Department permit and exceeds \$300,000 in cost, representatives of Landlord shall have the right to inspect the same at reasonable times, on reasonable prior notice and accompanied by a representative of Tenant (unless Tenant shall fail to make a representative available for such purpose).

Section 11.02. Requirements. (a) When Tenant performs an Alteration, Tenant shall:

(i) perform the Alteration in a good and workmanlike manner using contractors and mechanics of recognized competence and using materials and equipment at least comparable in grade to the original installation in the Building;

(ii) perform the Alteration in compliance with Applicable Law;

and

(iii) pay for all costs incurred in connection with the Alterations, without limitation, all permits, certificates, approvals and licenses necessary to complete the Alterations.

(b) Prior to commencing the performance of an Alteration, Tenant shall comply with the following requirements:

(i) Tenant shall obtain all permits, approvals and certificates required by Applicable Law needed for the performance of the Alteration, except insofar as governmental practice and procedure requires that such permits, approvals and certificates be issued in stages, in which case Tenant shall obtain the same as required for the performance of the Alteration; and

(ii) Tenant shall obtain, or cause to be carried by Tenant's general contractor, commercial general liability insurance, "all risk" Builder's Risk Insurance and worker's compensation insurance, with completed operations endorsement, which insurance shall (x) include Landlord and Landlord's Mortgagee and the managing agent for the Building as additional insureds, and (if and to the extent that the same shall be customary) shall provide that the insurer will give Landlord and said additional insureds thirty (30) days prior written notice of cancellation of said policy and of any material modification thereof, (y) be in such limits as are reasonably appropriate for the nature and cost of the particular work, and (z) be issued by a company or companies of recognized responsibility and licensed to do business in the State of New York.

(c) Promptly following completion of any Alteration and Landlord's request therefor, Tenant shall deliver to Landlord (x) the final governmental approvals, including any amended or newly issued certificate of occupancy required in connection with the completed Alteration, and (y) such "as built" plans for such Alteration as are required by Applicable Law. Landlord acknowledges that all plans for any Alteration, including, without limitation, any "as-built" plans required to be delivered to Landlord pursuant to this Article 11, shall remain the exclusive property of Tenant and/or the architect and/or the engineer who prepared such plans, provided that Landlord shall be permitted to use such plans for the purpose of completing such Alteration if and when Landlord has the right to do so under the terms of this Lease.

Section 11.03. Tenant's Property. (a) Tenant may, at any time and from time to time during or upon the expiration or earlier termination of the term of this Lease, remove from the Building any or all trade fixtures, equipment, moveable partitions, moveable walls and wall systems, furniture and furnishings, and other moveable personal property in the Premises by or at the behest of Tenant, provided such installation or removal is accomplished without permanent and material damage to the Building. Tenant shall promptly repair any damage caused by such removal.

(b) Upon the expiration of this Lease, Tenant shall remove all of Tenant's personal property from the Building, and Tenant shall promptly repair any damage to the Building resulting therefrom. If Tenant shall fail to remove any personal property of Tenant which Tenant is permitted to remove upon the expiration of this Lease, then (unless Tenant shall then be unable to remove the same due to Excusable Delay) any such property not removed, within ten (10) days following notice given to Tenant by Landlord following such expiration shall be deemed to have been abandoned, and shall, at Landlord's election, become the property of Landlord or disposed of by Landlord, without accountability to Tenant, in such manner as Landlord shall reasonably determine.

Section 11.04. Restoration Obligation. (a) Tenant shall be obligated to pay for restoration after Lease Termination of the following items: (i) any Structural Alteration as to which Landlord has reserved its right under this Lease to require restoration; (ii) unless requested otherwise by Landlord, the restoration of the Building effected by the separation of the Building from 557 Broadway if and to the extent required in accordance with the Easements Agreement; and (iii) the slabbing over in a commercially reasonable manner of any interior stairwells ("Atrium") constructed by Tenant (whether prior or subsequent to the Commencement Date of this Lease) if, and to the extent that, Landlord in good faith determines that it will pursue a leasing program for the Building or portions thereof to lease space to single floor tenants or to more than one tenant on a floor or to multifloor tenants who will not use the existing Atrium or portions thereof.

(b) Tenant shall discharge the restoration obligations set forth in Section 11.04(a) above by reimbursing Landlord for the commercially reasonable cost incurred by Landlord in

physically accomplishing those restorations which Landlord has the right under this Lease to require. If Landlord and Tenant are unable to agree upon the commercially reasonable cost or the appropriate allocation of cost to a required restoration item, the dispute will be resolved by Expedited Arbitration.

(c) Landlord shall notify Tenant no later than one year after Lease Termination which items Landlord intends to restore. Landlord will commence restoration on those items on a schedule which, in accordance with New York City construction industry practice, would reasonably anticipate substantial completion prior to the second anniversary of Lease Expiration.

(d) If and for so long as Tenant does not meet the Financial Test at Lease Termination or at any time thereafter, Tenant shall deposit in escrow with the Escrow Agent (as hereinafter defined) the amount by which the total of all commercially reasonable estimates of costs of restorations arrived at pursuant to Section 11.01(g) and (h) hereof plus \$280,000 (the currently agreed upon commercially reasonable cost of restoration of the entire Atrium) exceeds the amount of Tenant's Letter of Credit. The amount, if any, required to be deposited will be recalculated when Landlord gives Tenant the notice required under Section 11.04(c) above. The amounts so deposited plus Tenant's Letter of Credit shall be security for performance of Tenant's obligations under Sections 11.04(a) and (b) hereof but shall not limit Tenant's liability. Escrow Agent shall be agreed upon by Landlord and Tenant but in any event it shall be a reputable law firm in New York City having no less than ten attorneys. If the parties fail to agree on an Escrow Agent within 30 days from the date the need for the Escrow Agent arises, then either party may ask the President of the Association of the Bar of The City of New York to appoint an Escrow Agent. The parties hereto shall be bound by such appointment. The Escrow Agent shall invest the escrowed funds in a commercially reasonable interest bearing investment.

(e) Tenant's liability for payment with respect to restoration shall not exceed the commercially reasonable costs incurred by Landlord for physical restoration actually performed within two years of Lease Termination. Any amounts in escrow in excess of Landlord's unreimbursed costs shall be released from escrow and paid over (together with interest thereon) to Tenant as soon as practicable after the second anniversary of Lease Expiration. The provisions of this Section 11.04(e) shall survive the expiration or earlier termination of this Lease.

Section 11.05. Landlord's Property. All Alterations performed by Tenant to the core of the Building, and all fixtures (other than trade fixtures), appurtenances and leasehold improvements permanently attached to or built into the Premises shall, upon Lease Expiration, be deemed to be the property of Landlord, subject, however, to Tenant's right to perform the Alterations permitted pursuant to this Article 11.

ARTICLE TWELVE

CONDEMNATION

Section 12.01. Total Taking. If all of the Premises shall be taken by condemnation or in any other manner for any public or quasi-public use or purpose (other than for temporary use or occupancy), the term of this Lease shall terminate as of the date of vesting of title (the "Date of the Taking"), and, subject to a pro-ratio and apportionment of Annual Rental and Real Estate Taxes as of the Date of the Taking, Tenant shall have no further obligations hereunder.

Section 12.02. Partial Taking. In the event of a partial taking, this Lease shall remain in effect with respect to the balance of the Premises without any reduction in the Annual Rental, Additional Rent or other sums payable hereunder and Tenant shall be obligated to rebuild, alter and restore the remaining part of the Building.

Section 12.03. Claims of Landlord and Tenant. Except as otherwise provided herein and subject to the provisions of Section 12.04 hereof, Landlord shall be entitled to receive the entire award in any proceeding with respect to any taking (other than for temporary use and occupancy) provided for in this Article. Tenant shall also have the right to make a separate claim with the condemning authority for (a) any moving expenses incurred by Tenant as a result of such taking; (b) the unamortized portion (on a straight-line basis over twenty (20) years) of any costs incurred by Tenant in connection with any alteration or improvement made by Tenant to the Premises; (c) the value of any of Tenant's property taken (not compensated for under (b) of this sentence); and (d) any other separate claim which Tenant may hereafter be permitted to make. If Tenant shall not be permitted to make a separate claim in such proceeding, Landlord shall prosecute all claims in such proceeding on behalf of both Landlord and Tenant, in which event Tenant may, if it so elects and at its expense, join with Landlord in such proceeding, retain co-counsel, attend hearings, present arguments and generally participate in the conduct of the proceeding. Items (a), (b), (c) and (d) above in this Section 12.03 are hereinafter referred to as "Tenant's separate claim items."

Section 12.04. Distribution of the Award. The aggregate amount of all awards received in any proceeding relating to any taking (other than awards to Tenant for temporary use or occupancy) is hereinafter called the "Award". Regardless of the apportionment of the Award in such proceeding, and regardless of any termination of this Lease, the Award shall be distributed in the following order of priority:

(a) If Tenant shall be obligated to repair, alter and restore the remaining part of the Building or the Premises pursuant to Section 12.02, there shall be paid: (i) to Tenant, the amount actually expended by Tenant for such repair, alteration and restoration; (ii) to Tenant, any Tenant's separate claim items; (iii) to Landlord, the amount by which Landlord's reversionary interest in the Premises had there been no taking has been reduced by the taking; (iv) to Tenant, the amount by which the taking reduced the value of the estate vested in Tenant

by this Lease; and (v) to Landlord, the balance, if any of the Award. The foregoing amounts payable to Landlord shall be paid to Landlord's Mortgagee to the extent required by Landlord's Mortgage.

(b) If the Lease is terminated pursuant to Section 12.01: (i) the Landlord's Mortgagee shall be paid such amount as shall be necessary to satisfy the Mortgage; (ii) the Tenant shall be paid the Tenant's separate claim items; and (iii) the Landlord shall be paid any balance of the Award.

(c) The provisions of this Section 12.04 shall survive termination of the Lease.

Section 12.05. Temporary Taking of Premises. If all or any part of the Premises shall be temporarily taken by condemnation or otherwise for any public or quasi-public use or purpose, this Lease shall nevertheless remain in full force and effect. Tenant shall continue to be responsible for all of its obligations hereunder in so far as such obligations are not affected by such taking, including, without limitation, Tenant's liability for the Annual Rental and Additional Rent reserved hereunder. The entire Award for a temporary taking shall belong to the Tenant provided the entire term of the temporary taking falls within the unexpired term of this Lease; otherwise, the Award will be apportioned between Landlord and Tenant in an equitable manner to reflect the damages to be suffered by Tenant during the Lease term and the damages to be suffered by Landlord thereafter. Any dispute between Landlord and Tenant with respect to such apportionment shall be resolved by arbitration.

Section 12.06. Tenant's Obligation to Restore. In the event of a taking which does not result in the termination of this Lease, Tenant shall, at Tenant's expense and regardless whether any Award or Awards shall be sufficient for the purpose, proceed with due diligence to repair, alter and restore the remaining part of the Premises substantially to their former condition to the extent feasible and permitted by law to constitute a complete and tenantable Building. Upon the expiration of any temporary taking which did not result in a termination of this Lease, Tenant shall restore the Premises to their former condition as aforesaid.

ARTICLE THIRTEEN

REMEDIES AND DEFAULTS

Section 13.01. Default by Tenant. Any of the following events shall be an "Event of Default" hereunder:

(a) If Tenant shall fail to pay any monthly installment of the Annual Rental or any item of Additional Rent when due, and failure to make either of such payments shall continue for a period of ten (10) days after written notice thereof by Landlord; or

(b) If Tenant shall fail to perform or observe any other covenant, term, provision or condition of this Lease to the detriment of Landlord and such failure shall continue for a period of thirty (30) days after written notice thereof by Landlord (or such longer period as may be reasonably required to cure such default), subject to Excusable Delays.

Section 13.02. Landlord's Remedies. (a) This Lease is subject to the limitation that, if an Event of Default shall have occurred and then be continuing, then, at Landlord's option and upon fifteen (15) days prior written notice to Tenant (if such Event of Default shall not have been cured within said fifteen (15) days), this Lease and the term and estate hereby granted and Tenant's right to possession and occupancy of the Premises shall immediately cease and terminate. Notwithstanding the foregoing, if Landlord shall have properly delivered two (2) such termination notices to Tenant by reason of separate Events of Default occurring within the preceding twelve (12) month period, then Tenant shall not have the right to cure the third Event of Default during said fifteen (15) day termination period.

(b) Despite any termination of this Lease, Tenant agrees that Tenant shall remain liable for the Annual Rental and any Additional Rent due and to become due hereunder, and the same shall be paid by Tenant to Landlord on the regular days stipulated herein for payment of rentals. If the Premises are relet in whole or in part, Tenant shall be entitled to a credit in the amount of the Annual Rental or Additional Rent received by Landlord as a result (after deducting all reasonable costs incurred by Landlord in finding a new tenant and making the Premises (or any portion thereof) ready for occupancy, including, but not limited to, brokerage and advertising fees). Tenant shall remain obligated to pay the amount of any deficiency in the Annual Rental or any Additional Rent obtained on such reletting, but if the Annual Rental or any Additional Rent obtained on such reletting is greater than that provided for herein plus Landlord's costs, Landlord shall be entitled to receive such excess. Landlord shall have the right to collect from Tenant amounts equal to said deficiencies provided for above by suits or proceedings brought from time to time on one or more occasions without Landlord being obligated to wait until the expiration of the term of this Lease.

(c) If this Lease shall have been terminated pursuant to Subsection 13.02(a) above, then, in lieu of (but not in addition to) the rental liability provided in Subsection 13.02(b) above, Landlord may elect, by notice given to Tenant within thirty (30) days following such termination, to claim and receive as damages a liquidated sum equal to the then present value of the amount, if any, by which (i) the aggregate of the Annual Rental and the Additional Rent which would have been payable by Tenant to Landlord under this Lease during the period beginning on the date of such election and ending on the Expiration Date, exceeds (ii) the Fair Rental Value of the Premises (which, in the event of a dispute thereto, shall be determined in accordance with Article 26 below) for said period.

(d) If an Event of Default shall have occurred and then be continuing, Landlord or Landlord's agents and employees may, after the fifteen (15) day notice period provided in Section 13.02(a) above or at any time thereafter, terminate this Lease and then reenter the

Premises, either by summary dispossession proceedings or by any suitable action or proceeding at law, without being liable to indictment, prosecution or damages therefor, and may repossess the same, and may remove any person therefrom, to the end that Landlord may have, hold and enjoy the Premises. If this Lease shall be terminated, and whether or not Landlord shall then reenter the Premises under the provisions of this Article 13, Tenant shall thereupon pay to Landlord the Annual Rental and any other amount due hereunder payable up to the time of such termination of this Lease, and shall also pay to Landlord damages as hereinabove provided.

(e) If this Lease shall be terminated under the provisions of this Article 13, and whether or not Landlord shall then reenter the Premises under the provisions of this Article 13, Landlord shall be entitled to retain all monies, if any, paid by Tenant to Landlord, whether as advance rent, security or otherwise, but such monies shall be credited by Landlord against any Annual Rental or any other amount due hereunder from Tenant at the time of such termination or, if no such amount shall be due, against any damages payable by Tenant hereunder.

(f) If an Event of Default shall occur and then be continuing, then Landlord, any superior lessor or any Landlord's Mortgagee, without thereby waiving such default, may (but shall not be obligated to) perform the same for the account and at the reasonable expense of Tenant, without notice in a case of emergency, and in any other case only upon five (5) business days notice to Tenant. The full amount of the reasonable cost and expense so incurred by Landlord, such superior lessor or Landlord's Mortgagee shall be paid by Tenant to Landlord, with interest at the Prime Rate from the date such expense was paid by Landlord, superior lessor or Landlord's Mortgagee until paid by Tenant.

Section 13.03. Late Payments. If either party shall fail to pay to the other any amount then due under this Lease, and, if such failure shall continue for a period of thirty (30) days after notice has been given to the late payor that the same is overdue, then the party obligated to make such payment shall be also obligated to pay to the other: (a) a one-time administrative charge equal to one (1%) percent of the overdue amount, and (b) interest on such overdue amount at the Prime Rate, from its due date until paid.

Section 13.04. Prevailing Party. Notwithstanding anything to the contrary contained herein, (i) if Landlord shall institute any action or proceeding against Tenant with respect to any matter arising from this Lease, or (ii) if Tenant shall institute any action or proceeding against Landlord with respect to any matter arising from this Lease, then, in either of such events, the party not prevailing in such actions or proceedings shall, within thirty (30) days following demand therefor, pay to the other party the expenditures (including reasonable attorneys' fees), with interest at the Prime Rate, incurred by such other party in connection therewith.

ARTICLE FOURTEEN

BANKRUPTCY

Section 14.01. Bankruptcy by Tenant. This lease is subject to the limitation that if (a) a petition in bankruptcy or insolvency or for reorganization or for the appointment of a receiver or trustee of all or substantially all of Tenant's assets shall be filed against Tenant in any court pursuant to any statute either of the United States or of any state and Tenant fails to secure a discharge thereof within one hundred twenty (120) days, or if Tenant shall voluntarily file a petition in bankruptcy or makes an assignment for the benefit of creditors or petitions for or enters into an arrangement with creditors, or (b) if a permanent receiver shall be appointed for all of the property of Tenant, the term of this Lease, at the option of Landlord, exercised within thirty (30) days after notice of the happening of any one or more of such events, shall terminate on such date as Landlord shall specify by notice to Tenant, with the same effect as if the date of termination were the Expiration Date of this Lease, but Tenant shall remain liable for rentals and/or damages and attorneys' fees as provided in Article Thirteen; provided, however, that Landlord may not terminate the term of this Lease if and for so long as Tenant shall pay the Annual Rental when due and Tenant shall not be in default of any other obligations hereunder after the expiration of any applicable cure period.

ARTICLE FIFTEEN

COMPLIANCE WITH LAWS

Section 15.01. Tenant's Compliance with Laws. (a) Tenant, at Tenant's expense, shall comply with any valid and applicable laws, rules, orders, ordinances, regulations and other requirements, present or future (collectively, "Applicable Law"), affecting the Premises, or the use or occupancy thereof, that are promulgated by any governmental authority or agency having jurisdiction over the Premises, and with any reasonable and industry-wide requirements of the insurance companies insuring Landlord or Tenant against damage, loss or liability for accidents in or connected with the Premises. Without limiting Tenant's obligations under the preceding sentence, Tenant, at Tenant's expense, shall comply with Applicable Law relating to the installation, modification and maintenance within the Premises of fire-rated partitions and sprinklers, gas, smoke or fire detector or alarm systems, any emergency lighting systems or any other currently required system to extinguish fires, including, but not limited to, Local Law 5/1973. Tenant shall not at any time use or occupy the Premises so as to violate the certificate of occupancy for the Building.

(b) Tenant may, at its expense (and, if necessary, in the name of, but without expense to, Landlord) contest, by appropriate proceedings diligently prosecuted, the validity or applicability to the Premises of any matter which Tenant may be required to comply with pursuant to Subsection 15.01(a) above, and may postpone compliance therewith until such

contest shall be decided, provided that the postponement of such compliance shall not (i) subject Landlord or its managing agent or any Mortgagee (or their respective partners, directors, officers, shareholders, agents and employees) to any civil fine or monetary penalty (unless Tenant assumes responsibility for the payment thereof), criminal liability or forfeiture of the Land or Building or any part thereof, (ii) subject the Building or any part thereof to being condemned or vacated by reason thereof, or (iii) prevent the issuance of or cause the certificate of occupancy for the Building to be revoked. Tenant shall indemnify and hold harmless the Landlord's Mortgagee, and Landlord and Landlord's partners, directors, officers, shareholders, agents and employees from and against any and all claims arising from Tenant's contesting any Applicable Law in accordance with this Subsection 15.01(b).

ARTICLE SIXTEEN

ASSIGNMENT AND SUBLETTING

Section 16.01. Assignment by Tenant. (a) Tenant shall have the right, on notice to Landlord but without being required to obtain Landlord's consent, to assign Tenant's interest in this Lease to any corporation or other entity: (i) into or with which Tenant shall be merged or consolidated, provided (x) in the case of a corporate assignee, that such assignee shall have (immediately after such merger or consolidation) a net worth equal to not less than the assignor's net worth immediately preceding such assignment, and (y) in the case of an assignee which is a partnership or similar entity, that the aggregate net operating income of both Tenant and the entity into or with which Tenant shall be merged or consolidated, for the fiscal year immediately preceding such merger or consolidation, shall be equal to not less than two (2) times the then current Annual Rental due under this Lease; (ii) to which Tenant shall sell all or substantially all of Tenant's stock or assets, provided that the assignor Tenant and such assignee shall have (immediately after such sale) a combined net worth equal to not less than the assignor's net worth immediately preceding the assignment; and/or (iii) which controls, is controlled by, or is under common control with, Tenant, provided that, in any of the events referred to in clauses (i), (ii) and (iii) above, such merger, consolidation or transfer shall be for a valid business purpose and not principally for the purpose of transferring this Lease. In all other instances, Tenant shall have the right to assign this Lease, provided that Tenant shall have obtained the prior consent of Landlord thereto, which consent shall not be unreasonably withheld or unduly delayed, unless Landlord shall have the right to withhold its consent pursuant to the provisions of Subsection 16.01(c) below. Provided that Tenant's request for Landlord's consent to such proposed assignment shall state that Landlord shall be deemed to have granted such consent if Landlord does not respond to said request within ten (10) business days, then, if Landlord shall fail to consent to a proposed assignment or to notify Tenant in reasonable detail of Landlord's reasons for refusing to consent to any proposed assignment of this Lease within ten (10) business days after Tenant shall have requested such consent and furnished to Landlord the information and statement required pursuant to Subsection 16.01(c) below, then Landlord shall be deemed to have consented to such proposed assignment. For purposes of this Lease, without limiting the

nature of what constitutes acceptable evidence, Landlord agrees that the certified statement of a certified public accountant (from a firm which shall be comprised of not less than twenty five (25) accountants) attesting to the "net worth" or the "net operating income" of the Tenant, assignee or subtenant, respectively, computed in accordance with generally accepted accounting principles, shall (except for the purpose of releasing assignor Tenant from its obligations hereunder in the case of an assignment to a person which has a net worth of \$300,000,000, as provided in Subsection 16.01(b) below) be deemed conclusive and binding evidence of the same.

(b) Any assignment or transfer, whether made with Landlord's consent or without Landlord's consent pursuant to this Article 16 (excluding, however, assignments by operation of law or which otherwise become effective without an instrument of assignment), shall be made only if, and shall not be effective until, Tenant shall deliver to Landlord a duplicate original instrument of assignment, duly executed and acknowledged by Tenant, and assumption, duly executed and acknowledged by the assignee, whereby the assignee shall assume the obligations of this Lease on the part of Tenant to be performed or observed ((x) in the case of a merger or consolidation pursuant to clause (i) of Subsection 16.01(a) above, from the Commencement Date, and (y) in the case of any other assignment, only from the effective date of such assignment), and whereby the assignee shall agree that the provisions of this Article 16 shall, notwithstanding such assignment or transfer, continue to be binding upon the assignee with respect to all future assignments and transfers. The original named Tenant covenants that, notwithstanding any assignment or transfer, whether or not in violation of the provisions of this Lease, and notwithstanding the acceptance of Annual Rental and/or Additional Rent by Landlord from the assignee, transferee or any other party, the original named Tenant shall remain fully liable for the payment of the Annual Rental and Additional Rent provided in this Lease and for the performance and observance of all other obligations provided in this Lease to be performed or observed by Tenant. Notwithstanding anything in the foregoing sentence to the contrary, if Tenant shall assign all of its interest in this Lease to an assignee which shall have a net worth of not less than Three Hundred Million (\$300,000,000) Dollars, and Tenant shall give Landlord reasonable evidence thereof, and the assignee shall have as of the effective date of the assignment an S&P Senior Long Term Debt rating of BBB or higher, then Tenant (including the initially named Tenant herein as well as all successors, if any, to Tenant's interest herein, other than such assignee) shall be released from all obligations to be performed or observed by Tenant under this Lease from and after the effective date of the assignment and assumption agreement described in this Subsection 16.01(b). If the original named Tenant assigns this Lease in accordance with this Article 16 but is not released from liability hereunder, Landlord shall give the original named Tenant a copy of each notice of default given by Landlord to the then current tenant under this Lease at the same time as any such notice shall be given to the then current tenant. Landlord shall not have any right to terminate this Lease, or otherwise to exercise any of its rights and remedies hereunder, after a default by such current tenant, unless and until (i) the original named Tenant receives a copy of the default notice in question, and (ii) the original named Tenant has an opportunity to remedy such default within the time periods set forth in Article 13 above. Landlord shall accept timely performance by the original named Tenant of any term, covenant, provision or agreement contained herein on the then current tenant's part to be observed and

performed with the same force and effect as if performed by the then current tenant. If the original named Tenant shall cure the default by such current tenant, or if the default shall be incurable (such as bankruptcy), and Landlord or the current tenant seeks to terminate this Lease, then the original named Tenant shall have the right to resume actual possession of the Premises for the unexpired balance of the term of this Lease upon all of the then executory terms of this Lease.

(c) With respect to any proposed assignment for which Landlord's consent is required pursuant to Subsection 16.01(a) above, Tenant shall furnish to Landlord, simultaneously with Tenant's request for such consent, reasonable evidence of the proposed assignee's net worth (or, if the proposed assignee is a partnership or similar entity, the proposed assignee's net operating income), together with a statement by the proposed assignee as to the name and then current address of the proposed assignee, the nature of the assignee's business and the proposed assignee's intended use of the Premises. Landlord shall have the right to withhold consent to the proposed assignment only if (i) on the date that Tenant requests Landlord's consent to the proposed assignment, the proposed assignee's net worth is less than the "Minimum Net Worth" (defined below) (or, if the proposed assignee is a partnership or similar entity, if the proposed assignee's aggregate net operating income for the previous year shall be less than two (2) times the then current Annual Rental), (ii) the proposed assignee's intended use of the Premises would violate the provisions of Article 7 above, (iii) the proposed assignee (or any Affiliate thereof) has ever been convicted of any felony, (iv) the proposed assignee (or any Affiliate thereof) has been indicted on any felony charge during the five (5) years preceding the proposed assignment, or (v) the proposed assignee (or any Affiliate thereof) has been the subject of any voluntary or involuntary bankruptcy, insolvency, reorganization or similar proceedings of the type described in Section 14.01 above during the five (5) years preceding the proposed assignment (provided that, in the case of an involuntary bankruptcy proceeding, the same shall not have been dismissed within one hundred twenty (120) days after the commencement of such proceeding) (the criteria set forth in the foregoing clauses (ii) through (v) being collectively referred to as the "Use and Character Criteria"). For the purposes hereof, the term "Minimum Net Worth" shall mean: (x) \$15,000,000 during the period commencing on the Commencement Date and continuing to the twentieth (20th) anniversary of the Commencement Date, (y) \$20,000,000 during the period commencing on the twentieth (20th) anniversary of the Commencement Date and continuing to the Expiration Date, and (z) \$25,000,000 during the Renewal Term, if this Lease shall have been renewed for the Renewal Term). Landlord shall also have the right to withhold consent to the proposed assignment if there shall then exist an uncured Event of Default.

Section 16.02. Subletting by Tenant. (a) Tenant shall have the right, without being required to obtain Landlord's consent, to sublet all or any portion of the Premises. Tenant shall give Landlord prior written notice of a subletting of all or substantially all of (i) the entire Premises, (ii) the office portion of the Premises or (iii) the retail portion of the Premises. Landlord shall have no recapture or profit-sharing rights with respect to any subletting.

(b) Each sublease will terminate at least one day prior to the date of Lease Termination.

(c) No sublease shall be valid, and no subtenant shall take possession of the Premises or any part thereof, until Tenant shall deliver to Landlord either a duplicate original or a conformed copy of the sublease.

(d) Each sublease shall provide that it is subject and subordinate to this Lease and to the matters to which this Lease is or shall be subordinate, and that, in the event of termination, reentry or dispossession by Landlord under this Lease, Landlord may, at its option (subject, however, to the provisions of Subsection 16.02(f) below), succeed to the right, title and interest of Tenant, as sublessor, under such sublease, and such subtenant shall, at Landlord's option (subject, however, to the provisions of Subsection 16.02(f) below), attorn to Landlord pursuant to the then executory provisions of such sublease, except that Landlord shall not be (A) liable for any previous act or omission of Tenant under such sublease, (B) subject to any credit, offset, claim, counterclaim, demand or defense which such subtenant may have against Tenant, (C) bound by any previous modification of such sublease unless a duplicate original or conformed copy of such modification has been delivered to Landlord promptly after execution or by any previous prepayment of more than one month's rent, (D) bound by any covenant of Tenant to undertake or complete any construction of the Premises or any portion thereof, (E) required to account for any security deposit of the subtenant other than any security deposit actually delivered to Landlord by Tenant, or (F) bound by any obligation to make any payment to such subtenant or grant any credits, except for services, repairs, maintenance and restoration provided for under the sublease to be performed after the date of such attornment.

(e) Each sublease which permits further assignment or subletting shall provide that the subtenant may not assign its rights thereunder or further sublet the space demised under the sublease, in whole or in part, without first delivering to Landlord a duplicate original or conformed copy of any instrument of assignment or subletting, as the case may be.

(f) Subject to the provisions of this Subsection 16.02(f), Landlord shall, upon the request of Tenant, enter into a nondisturbance agreement (an "NDA"), reasonably satisfactory to Landlord and the subtenant stating that, in the event of the termination of this Lease by reason of the default of Tenant hereunder, so long as there shall be no default by such subtenant under its sublease beyond any applicable grace period set forth in the sublease for the curing of such default, Landlord shall not disturb such subtenant's possession of the subleased premises, provided that such subtenant shall attorn to and recognize Landlord as its landlord under the sublease. Landlord shall not be obligated to enter into an NDA, unless: (i) the sublease, if of office space: (x) is for a full floor or more; and (y) has a rent if converted to a square foot net lease basis (i.e., rent plus real estate taxes and operating expenses) equal to or greater than the net rent plus Real Estate Taxes and operating expenses payable by Tenant hereunder, or, alternatively, requires the subtenant, should it ever attorn to Landlord, to pay to Landlord per rentable square foot the same Annual Rental, Real Estate Taxes and operating expenses that

Tenant would have paid with respect to the sublease premises; and (ii) the sublease, if of retail space, has a rent and additional rent obligation that is at or above market for comparable retail space in SoHo, or, alternatively, requires the subtenant, should it ever attorn to Landlord, to pay to Landlord a rent and additional rent obligation that is at market for comparable retail space in SoHo. Notwithstanding anything to the contrary set forth herein, any NDA delivered by Landlord pursuant to this Subsection 16.02(f) shall, pursuant to this Lease, be conditional and by its terms expressly contain the condition, such that, in the event of any termination of this Lease (as to all or a portion of the Premises) other than by reason of Tenant's default (e.g., by reason of a casualty during the last two years of the Term), any NDA with a subtenant which occupies the space with respect to which this Lease is terminated shall, automatically and without further act of the parties, terminate and be of no further force or effect from and after the applicable termination date. Upon the attornment and recognition referred to in the foregoing sentences, and the posting of the security (if any) required pursuant to the provisions of the next sentence, the sublease shall continue in full force and effect as, or as if it were, a direct lease between Landlord and such subtenant upon all of the then executory terms, conditions and covenants as are set forth in such sublease, except as set forth in the next sentence and further except that Landlord shall not be: (A) liable for any previous act or omission of Tenant under such sublease, (B) subject to any credit, offset, claim, counterclaim, demand or defense which such subtenant may have against Tenant, (C) bound by any previous modification of such sublease unless a duplicate original or conformed copy of the modification has been delivered to Landlord promptly after execution, (D) bound by any covenant of Tenant to undertake or complete any construction of the Premises or any portion thereof, (E) required to account for any security deposit of the subtenant other than any security deposit actually delivered to Landlord by Tenant, (F) bound by any obligation to make any payment to such subtenant or grant any credits, except for services, repairs, maintenance and restoration provided for under the sublease to be performed after the date of such attornment, or (G) bound by any rent which such subtenant might have paid to any Tenant for more than one month in advance. The foregoing NDA shall be (and shall provide that it is) subject to the condition that the subtenant (on the effective date of said attornment) shall have a net worth or shall deposit security in lieu thereof (which security may be in the form of cash or a letter of credit substantively similar to the letter of credit described in Article 32 below) in accordance with the following formula: (I) if the subtenant's net worth shall be not less than an amount equal to twice the sum of the Annual Rental, Real Estate Taxes and operating expenses payable pursuant to this Lease (pro rated on a rentable square foot basis for the subleased premises) for the calendar year in which said attornment shall become effective (such amount being referred to herein as "Threshold Rental"), no security shall be required; and (II) if the subtenant's net worth shall be less than one hundred (100%) percent of Threshold Rental, then the subtenant shall be required to deposit security equal to fifty (50%) percent of Threshold Rental.

(g) Affiliates of Tenant shall be permitted to occupy the Premises (or portions thereof) without such occupancy being deemed an assignment of this Lease or a subletting of the Premises (or portions thereof).

Section 16.03. Partnership Tenant. Notwithstanding anything to the contrary contained in this Lease, if Tenant's interest in this Lease shall be assigned to a partnership, the partners of such partnership Tenant shall have no personal liability with respect to any of the provisions of this Lease, and if such partnership Tenant shall be in breach or shall default with respect to its obligations under this Lease, Landlord shall look solely to the assets of such partnership Tenant for the satisfaction of Landlord's remedies, and in no event shall Landlord attempt to secure any personal judgment against any constituent partner of such partnership Tenant by reason of such default by such partnership Tenant.

Section 16.04. Acceptance of Rent. If this Lease shall be assigned, Landlord may collect rent from the assignee thereof. Landlord may apply the net amount collected to the Annual Rental and Additional Rent herein reserved, but (except as otherwise provided elsewhere in this Article 16) no such assignment shall be deemed a release of Tenant from the performance by Tenant of Tenant's obligation under this Lease.

ARTICLE SEVENTEEN

LANDLORD'S ACCESS

Section 17.01. Landlord's Access to Premises. Landlord, and Landlord's employees, agents and contractors, shall have the right to enter and pass through the Premises or any part or parts thereof (a) during business hours, unless otherwise consented to by Tenant: (i) to examine the Premises and to show the Premises to mortgagees and to prospective purchasers, mortgagees or insurers (and potential lessees during the last two (2) years of the term of this Lease), and (ii) if and so long as Landlord has exercised its right to manage the Premises pursuant to Section 5.02(d) hereof, for cleaning and maintenance and making such repairs, replacements or changes in or to the Premises or its facilities as may be permitted by this Lease or as may be mutually agreed upon by the parties; provided, however, that the foregoing shall be done upon reasonable advance notice to Tenant, in a reasonable manner so as to minimize interference with Tenant's business operations and, if required by Tenant, accompanied by a designated representative of Tenant (provided that Tenant makes such a representative available); and (b) in emergencies. Tenant may designate one or more areas in the Premises as secure areas, and Landlord shall have no access thereto without being accompanied by a designated representative of Tenant (provided that Tenant makes such a representative available) except in the case of emergencies if Landlord is accompanied by members of the Fire or Police Department. In connection with any entry onto the Premises permitted hereunder, Landlord shall use, and/or shall cause Landlord's employees, agents and contractors to use, best efforts to minimize, and if possible avoid, any damage to Tenant's property and installations in or about the Premises. Any such damage shall be repaired promptly by Landlord, at Landlord's expense.

Section 17.02. Limitations on Landlord's Right to Change the Building. Unless required by Applicable Law or this Lease, and then only to the extent so required, Landlord shall not,

without Tenant's consent (which consent shall not be unreasonably withheld or unduly delayed), make any addition to the Building, or any other improvements on the Land, or any alteration of the external appearance of the Building, or make any other alteration or change to the Premises. In addition, Landlord shall not, at any time during the term of this Lease, construct any additional buildings or other improvements on the Land, or lease or permit the use or occupancy of any portion of the Land or any improvements thereon to any party or entity except as provided in this Lease.

ARTICLE EIGHTEEN

NAME OF BUILDING; SIGNS

Section 18.01. Tenant's Right to Designate Building Name. Tenant shall have the right, from time to time, to designate, and thereafter change, the name of the Building, so long as such name shall relate to the name under which Tenant (or any subtenant or occupant of at least 50% of the office space or at least 50% of the retail space) is doing business at the time of any such designation.

Section 18.02. Signs Identifying the Building. Tenant may install, maintain, repair and replace exterior signs, flag poles and flags, banners, sculptures and/or graphics identifying the Building and setting forth Tenant's name and/or logo (or the name or logo of any permitted subtenants of the Premises), the locations, sizes, materials and designs of such signs, sculptures and/or graphics to be determined by Tenant in the exercise of Tenant's reasonable discretion, provided that at any time that appropriate consents and permits have been obtained under Applicable Law to permit two or more flagpoles or bannerpoles, the second to southerly most flagpole or bannerpole and, if Tenant fails or ceases to use the southerly most, the southerly most flagpole or bannerpole shall be reserved for the use of Landlord's "555 Broadway" banner. Landlord's "555 Broadway" banner shall be the size of the other banners, if any, installed by or on behalf of Tenant (or any subtenant), and similar in design and content to the "555 Broadway" banner heretofore installed. Tenant represents that it is currently seeking to obtain consent from the Landmarks Preservation Commission ("LPC") to install four (4) or five (5) flagpoles or bannerpoles on the Broadway facade of the Building. Until such consent is obtained, Tenant shall have the exclusive use of the existing flagpole and Tenant may, in Tenant's discretion, replace Landlord's "555 Broadway" banner heretofore installed with Tenant's own banner or remove the flagpole entirely.

Section 18.03. Landlord's Exterior Sign. Landlord has the right to affix to the exterior of the Building a sign in the form, at the location and meeting the specifications set forth in Exhibit E hereto and which is in accordance with all applicable governmental laws, rules and regulations (including, without limitation, those of the LPC).

ARTICLE NINETEEN

QUIET ENJOYMENT

Section 19.01. Quiet Enjoyment. So long as this Lease is in effect, Landlord covenants and agrees to take all necessary steps to secure and to maintain for the benefit of Tenant the quiet and peaceful possession of the Premises for the term of this Lease, without hindrance, claim or molestation by Landlord or any other person, subject, nevertheless, to the provisions of this Lease and to any instrument which is superior hereto.

ARTICLE TWENTY

NON-WAIVER

Section 20.01. Non-Waiver By Either Party. Failure by either party to complain of any action, nonaction or default of the other party shall not constitute a waiver of any aggrieved party's rights hereunder. Waiver by either party of any right in the event of any default of the other party shall not constitute a waiver of any right for either a subsequent default of the same obligation or for any other default, past (except to the extent specifically waived herein), present or future.

ARTICLE TWENTY-ONE

NOTICES; CONSENT TO JURISDICTION

Section 21.01. Notices to Landlord or Tenant. (a) Any notice or communication ("Notices") to Landlord or Tenant required or permitted to be given under this Lease shall be effectively given only if in writing and mailed by United States Registered or Certified Mail, postage prepaid, return receipt requested, or if delivered by hand or by national overnight courier, addressed as follows:

If to Tenant, addressed as follows:

Scholastic Inc.
555 Broadway
New York, New York 10012
Attention: Larry V. Holland
Senior Vice President

with a copy of any notice to:

Stroock & Stroock & Lavan LLP
180 Maiden Lane
New York, New York 10038
Attention: Jacob Bart, Esq.

If to Landlord, addressed as follows:

Ise 555 Broadway, LLC
555 Broadway
New York, New York 10012
Attention: Kimio Tabata

with a copy of any notice to:

Corbin Silverman & Sanseverino LLP
805 Third Avenue
New York, New York 10022
Attention: Raymond A. Sanseverino, Esq.

Either party shall have the right to change the identity of persons to whom and the address to which Notices shall thereafter be sent by giving Notice to the other party as aforesaid. Notices shall be deemed given upon receipt (or refusal to accept, if applicable). Landlord and Tenant shall have the right to designate their respective mortgagees as additional notice recipients.

(b) With respect to any matter under this Lease where it is provided that the recipient of a Notice shall be deemed to have consented to the request set forth therein if such recipient shall fail to respond thereto within a stated time period, such deemed consent shall not be operative unless such Notice shall state, in capital letters at the top of such Notice, that the consent of the recipient will be deemed to have been given if the recipient fails to respond within the stated time period.

Section 21.02. Consent to Jurisdiction. Landlord and Tenant hereby irrevocably consent and submit to the jurisdiction of any federal, state, county or municipal court sitting in the County of New York in respect to any action or proceeding brought therein by either against the other concerning any matters arising out of or in any way relating to this Lease. Landlord expressly waives any rights of Landlord pursuant to the laws of Japan or any other jurisdiction by virtue of which exclusive jurisdiction of the courts of such other jurisdiction might be claimed. Landlord and Tenant each (a) irrevocably waives personal service of any summons and complaint and consent to the service upon Landlord or Tenant, as the case may be, of process in any such action or proceeding by the mailing of such process by registered mail, return receipt requested, to Landlord or Tenant, as the case may be, at the address set forth above or such other

address in the New York City metropolitan area that Landlord or Tenant, as the case may be, may designate for notices from time to time, provided that, with respect to any time that Landlord or Tenant, as the case may be, does not maintain offices at a New York City metropolitan area address as set forth above, Landlord hereby designates Raymond A. Sanseverino, Esq. c/o Corbin Silverman & Sanseverino LLP, 805 Third Avenue, New York, New York 10022 (which designation shall be irrevocable unless Landlord shall have theretofore notified Tenant of Landlord's similarly irrevocable designation of another attorney-at-law in the City of New York) and Tenant hereby designates Stroock & Stroock & Lavan LLP, 180 Maiden Lane, New York, New York 10038, Attn.: Jacob Bart, Esq. (which designation shall be irrevocable unless Tenant shall have notified Landlord of Tenant's similar irrevocable designation of another attorney at law in New York City) to accept service of any process on Landlord's behalf or Tenant's behalf, as the case may be, and hereby agree that such service shall be deemed sufficient; (b) irrevocably waives all objections as to venue and any and all rights Landlord or Tenant, as the case may be, may have to seek a change of venue with respect to any such act or proceeding; and (c) agrees that the laws of the State of New York shall govern in any such action or proceeding and waives any defense to any action or proceeding granted by the laws of any other country or jurisdiction unless such defense is also allowed by the laws of the State of New York. Landlord and Tenant further agree that any action or proceeding by either against the other in respect to any matters arising out of or in any way relating to this Lease shall be brought only in the State of New York, County of New York. Notwithstanding anything to the contrary set forth herein, in the event of a sale or conveyance of Landlord's interest in the Building to a domestic entity, the designation referred to above shall be applicable only with respect to such service of process which Tenant shall desire to make on the initially named Landlord herein (i.e., Ise 555 Broadway, LLC, or any other entity which would qualify under the "initially named Tenant herein" definition (substituting the term "Landlord" for "Tenant") as set forth in Subsection 2.02(c) above). If Landlord's interest in the Building shall be sold or conveyed to a foreign entity, and such foreign entity shall have entered into a written agreement with Tenant identifying a substitute agent located in New York City, then the designation referred to above shall be applicable only with respect to such service of process which Tenant shall desire to make on the initially named Landlord herein. Notwithstanding anything to the contrary set forth herein, in the event of an assignment of Tenant's interest in the Building to a domestic entity, the designation referred to above shall be applicable only with respect to such service of process which Landlord shall desire to make on the initially named Tenant herein (i.e., Scholastic Inc., or any other entity which would qualify under the "initially named Tenant herein" definition as set forth in Subsection 2.02(c) above). If Tenant's interest in the Building shall be assigned to a foreign entity, and such foreign entity shall have entered into a written agreement with Landlord identifying a substitute agent located in New York City, then the designation referred to above shall be applicable only with respect to such service of process which Landlord shall desire to make on the initially named Tenant herein.

ARTICLE TWENTY-TWO

PARTIAL INVALIDITY

Section 22.01. Severability Clause. If any term, condition or covenant of this Lease, or the application thereof to any person or circumstance, shall ever be held to be invalid or unenforceable, then in each such event the remainder of this Lease or the application of such term, condition or covenant to any other person or any other circumstance (other than those as to which it shall be invalid or unenforceable) shall not be thereby affected, and each term, condition and covenant hereof shall remain valid and enforceable to the fullest extent permitted by law.

ARTICLE TWENTY-THREE

BROKERAGE

Section 23.01. Brokerage. Each of Landlord and Tenant represents to the other that the only brokers and consultants with whom they have dealt with respect to this Lease are Charles E. Lawrence III ("Lawrence"), Alex Luce ("Luce"), Peter Pattison, Jill Ward, Commonwealth Advisors, LLC, and John McDonagh/McDonagh Realty ("McDonagh"). Landlord agrees to pay all commissions that may be due or owing to Lawrence, Luce and/or any person or entity claiming a commission or similar fee by, through or under Lawrence and/or Luce pursuant to a separate agreement. Tenant agrees to pay all commissions that may be due or owing to Peter Pattison, Jill Ward and Commonwealth Advisors pursuant to separate agreements. Except as has been made the responsibility of the other party pursuant to the other provisions of this Section 23.01, Landlord and Tenant each agree to indemnify and hold the other harmless against any claims for commissions that may be asserted in connection with this Lease arising out of a breach of the foregoing representation by such party. Tenant agrees to indemnify and hold Landlord harmless from any claims for brokerage commissions that may be asserted by Goldman, Sachs & Co. or The Lansco Corporation or Neil J. Lerner against Landlord in connection with this Lease. Landlord agrees to indemnify and hold Tenant harmless from any claims for brokerage commissions that may be asserted by McDonagh, Julien J. Studley, Inc., CB Richard Ellis, Inc. and LaSalle Partners.

ARTICLE TWENTY-FOUR

SUBORDINATION; NON-DISTURBANCE

Section 24.01. Subordination. (a) Subject to the provisions of Section 24.02, this Lease is subject and subordinate to a first mortgage of the fee estate in the Property in the original principal amount of \$34,000,000, dated as of the date hereof, between Landlord, as mortgagor, and Credit Suisse First Boston Mortgage Capital LLC, as mortgagee (the "First Mortgage"), and

to any and all amendments, modifications, refinancings and replacements thereof (and to any and all amendments and modifications of any and all refinancings and replacements) in whatever amount, provided:

(i) any refinancing or replacement of the First Mortgage or any other financing of the Property or Mortgage is with a domestic institutional lender, or, if a refinancing or replacement of the First Mortgage or any other financing of the Property or Mortgage, is with a lender other than a domestic institutional lender, the principal amount of the mortgage upon such refinancing or replacement or other financing does not exceed 90% of the Fair Market Value of the Property; and

(ii) at any time during which Landlord has control of management of the Premises pursuant to the provisions of Section 5.02(d) hereof, any refinancing or replacement of the First Mortgage then on the Property or any other financing of the Property or Mortgage (whether or not with a domestic institutional lender) does not exceed 90% of the Fair Market Value of the Property.

(b) In the event that the principal balance of a refinanced or replaced First Mortgage or of any other financing of the Property or Mortgage exceeds 90% of the Fair Market Value of the Premises and Land and either the First Mortgage is refinanced or replaced or any other financing of the Property or Mortgage is (x) with a lender other than a domestic institutional lender or (y) at any time during which Landlord has control of management of the Premises pursuant to the provisions of Section 5.02(d) hereof, then this Lease shall be subject and subordinate to the refinanced or replaced First Mortgage or any other financing of the Property or Mortgage; provided that Landlord shall deliver to Tenant an evergreen letter of credit (the "Letter of Credit") issued by a major money center bank, having an office in New York City which actively handles commercial letters of credit, in an amount equal to the amount by which the principal of the refinanced or replaced First Mortgage or any other financing of the Property or Mortgage exceeds 90% of the Fair Market Value of the Property. The Letter of Credit shall be substantially in the form attached hereto as Exhibit F. Tenant shall have recourse against the Letter of Credit, or any cash into which the Letter of Credit may be converted as a result of a failure by Landlord to keep the Letter of Credit evergreen, to satisfy any judgment it may obtain against Landlord for any default by Landlord under this Lease. If control of management reverts to Tenant or if the principal balance of the Mortgage becomes less than 90% of the Fair Market Value of the Property, the Letter of Credit shall be returned to Landlord; provided, however, that Landlord shall deliver to Tenant the Letter of Credit if the provisions of this Subsection 24.01(b) shall again become applicable.

(c) If Landlord fails to renew the Letter of Credit at the later of (i) at least ten (10) business days prior to its expiration or twenty (20) business days after notice from Tenant that the expiration is less than sixty (60) calendar days away, Tenant may present the Letter of Credit for payment and, upon receiving payment, shall deposit the amount thereof in a separate, interest bearing account in a major money center bank having a branch or main office in New York City.

The amount so deposited and the interest thereon shall be held for the same purposes and turned over to Landlord under the same circumstances as apply hereunder to the Letter of Credit.

(d) Landlord may, from time to time, grant mortgages or other security interests covering its fee estate in the Property (collectively, a "Mortgage"; with the holder of a Mortgage being referred to herein as "Landlord's Mortgagee"). Subject to the provisions of this Section 24.01 and Section 24.02, this Lease and all rights of Tenant hereunder shall be subject and subordinate to any ground leases, overriding leases, underlying leases, and any Mortgage, including any modifications, replacements, extensions or renewals thereof and advances thereunder, from time to time in effect. Within thirty (30) days after request by Landlord, Tenant agrees to execute a subordination and non-disturbance agreement, confirming the provisions of Subsections 24.01(a) and (d) and Section 24.02 below, in form and substance reasonably acceptable to Tenant.

Section 24.02. Non-disturbance. (a) The subordination of this Lease to any ground lease, overriding lease, underlying lease or Mortgage referred to in Section 24.01 is expressly conditioned on the lessor or holder thereof expressly agreeing to execute and deliver a subordination, nondisturbance and attornment agreement with Tenant substantially in the form annexed hereto as Exhibit G and made a part hereof, but in no event shall such agreement impose any greater burden or obligations on Tenant or reduce any rights of Tenant beyond those set forth in Exhibit G (such agreement, an "SNDA"), to the effect that (i) Tenant will not be named or joined in any proceeding (or trustee's sale) to terminate such lease or reenter the premises thereof, or to enforce or foreclose the Mortgage unless such be required by law, provided that such proceeding shall not derogate the rights of Tenant under this Lease or the use and occupancy by Tenant (or its permitted assignees and subtenants) of the Premises, (ii) enforcement of any such lease or Mortgage shall not terminate this Lease or disturb Tenant in the possession or use of the Premises, (iii) any party succeeding to the interest of Landlord as a result of the termination of such lease or the lessor's reentry onto the premises thereof, or of the enforcement or foreclosure of the Mortgage shall be bound to Tenant, and Tenant shall be bound to such party, under all of the terms, covenants and conditions of this Lease, for the balance of the term of this Lease, including the Renewal Term (except as expressly set forth in Subsection 24.02(c) below), (iv) Tenant acknowledges the subordination referred to in Section 24.01, if requested by Landlord's Mortgagee or superior lessor, (v) insurance proceeds and Awards shall be first applied as provided in this Lease, and (vi) the Mortgage shall be subject and subordinate to the Easements Agreement.

(b) If any act or omission of Landlord would give Tenant the right, immediately or after lapse of a period of time, to cancel or terminate this Lease, or to abate or offset against the payment of rent or to claim a partial or total eviction, Tenant shall not exercise such right (i) until Tenant shall have given notice of such act or omission to Landlord and to each Landlord's Mortgagee and each superior lessor who has entered into an SNDA with Tenant, and whose then current name and address shall previously have been furnished to Tenant, (ii) with respect to a notice of cancellation or termination, until the period which is five (5) business days

(in the case of monetary defaults) or thirty (30) days (in the case of non-monetary defaults) beyond the date to which Landlord would be entitled under this Lease, after similar notice, to effect such remedy, shall have elapsed following the giving of such notice, provided that (x) such Landlord's Mortgagee or superior lessor shall with due diligence give Tenant notice of intention to, and promptly commence and with due diligence continue to, remedy such act or omission, and (y) such remedy shall be within five (5) business days (in case of monetary defaults) or thirty (30) days (in case of non-monetary defaults) after expiration of any time period available to Landlord (and subject to the same obligations applicable to Landlord) under the terms of this Lease or by law to effect a cure thereof, and (iii) with respect to a notice of abatement or offset or notice of partial or total eviction, until the period to which Landlord would be entitled under this Lease, after similar notice, to effect such remedy, shall have elapsed following the giving of such notice, provided that (x) such Landlord's Mortgagee or superior lessor shall with due diligence give Tenant notice of intention to, and promptly commence and with due diligence continue to, remedy such act or omission, and (y) such remedy shall be within the same time period available to Landlord (and subject to the same obligations applicable to Landlord) under the terms of this Lease to effect a cure thereof. Nothing contained in this Subsection 24.02(b) shall be deemed to permit or require the further extension of the cure periods beyond the applicable cure periods provided herein, including, without limitation, in the event (i) of force majeure, (ii) such Landlord's Mortgagee or superior lessor shall have commenced to cure a default within the applicable time period but shall not have prosecuted the same to completion within said time period, and/or (iii) possession of the Premises or the mortgaged property is required in order for such Landlord's Mortgagee or superior lessor to cure such default, or such default is not susceptible of being cured by such Landlord's Mortgagee or superior lessor. The aforesaid notice to Landlord's Mortgagees and superior lessors may be given by Tenant to any such Landlord's Mortgagee or lessor simultaneously with the giving of such notice to Landlord, or at any time thereafter.

(c) Supplementing the provisions of Subsection 24.02(a) above, if any superior lessor or Landlord's Mortgagee who has entered into an SNDA with Tenant, or any designee of any such lessor or Landlord's Mortgagee, shall succeed to the rights of Landlord under this Lease, whether through possession or foreclosure action or delivery of a new lease or deed, then such party so succeeding to Landlord's rights (herein called "Successor Landlord") and Tenant shall enter into a written agreement whereby such Successor Landlord agrees to accept Tenant's attornment and Tenant agrees to attorn to and recognize such Successor Landlord as Tenant's landlord under this Lease. Upon such attornment, this Lease shall continue in full force and effect as a direct lease between the Successor Landlord and Tenant upon all of the terms, conditions and covenants as are set forth in this Lease as if the Successor Landlord were the original landlord under this Lease, except that the Successor Landlord shall not be (i) bound by any payments of rent which Tenant might have made for more than one (1) month in advance to Landlord (or Landlord's predecessors in interest), (ii) liable to pay damages to Tenant for any breach, act, or omission or negligence of any prior Landlord (including the then defaulting Landlord), but shall nonetheless remain subject to any and all abatements, deductions, offsets, claims, counterclaims and/or defenses which shall have accrued to Tenant against any prior

landlord (including the then defaulting Landlord) prior to the date that Successor Landlord shall have succeeded to the rights of Landlord under this Lease, but in any case, provided, however, such non-liability for damages shall neither diminish Successor Landlord's liability for continuing obligations of Landlord nor diminish Tenant's rights under this Lease with respect to the continuing failure of Successor Landlord to perform the Landlord's obligations under this Lease after the date that Successor Landlord succeeds to the interest of Landlord under this Lease; or (iii) bound by any agreement amending this Lease made without the Successor Landlord's consent (but only to the extent that such amendment shall increase Successor Landlord's obligations or decrease Tenant's obligations under this Lease).

(d) If requested to do so by a first Landlord's Mortgagee who shall have entered, or then be entering, into an SNDA with Tenant, Tenant shall agree to make reasonable changes to this Lease, provided that such changes (individually or collectively) shall not (i) increase or decrease the term of this Lease or increase the rental, or (ii) increase any of Landlord's rights under this Lease, or (iii) increase (except to a de minimis extent) any of Tenant's obligations under this Lease.

ARTICLE TWENTY-FIVE

[Intentionally Omitted]

ARTICLE TWENTY-SIX

ARBITRATION OF DISPUTES

Section 26.01. Arbitration. (a) All disputes and determinations under this Lease which are specifically stated to be determined pursuant to this Article Twenty-Six or to be determined by arbitration shall be determined by arbitration conducted in New York, New York, as follows. The party desiring such arbitration shall give notice to the other party. If the parties shall not have agreed on a choice of an arbitrator within fifteen (15) days after the service of such notice, then either party, on behalf of both, may request that the New York office of the American Arbitration Association ("AAA") appoint an arbitrator to render a resolution of said dispute or to make the determination in question. In the absence or failure, refusal or inability of AAA to act within twenty (20) days, then either party, on behalf of both, may apply to a Justice of the Supreme Court of New York, New York County, for the appointment of an arbitrator, and the other party shall not raise any question as to the court's full power and jurisdiction to entertain the application and make the appointment. In the event of the failure, refusal or inability of an arbitrator to act, a successor shall be appointed within ten (10) days as hereinbefore provided. Notwithstanding the foregoing, if a determination of Fair Rental Value, fair market value or the value of either Landlord's or Tenant's estate in the Premises is the issue to be arbitrated or involved in the matter being arbitrated, each arbitrator selected or appointed pursuant to this

Section 26.01 shall be an appraiser, a member of the American Institute of Real Estate Appraisers (or a successor organization), and shall have been engaged in appraisals with respect to office properties in lower Manhattan for a period of at least ten (10) years before the date of his appointment. Any arbitrator acting under this Section 26.01 in connection with any other matter shall be experienced in the issue with which the arbitration is concerned and shall have been actively engaged in such field for a period of at least ten (10) years before the date of his appointment as arbitrator hereunder.

(b) All arbitrators chosen or appointed pursuant to this Article 26 shall (x) be sworn fairly and impartially to perform their duties as such arbitrator, and (y) not be an employee or past employee of Landlord or Tenant or their respective Affiliates. Within sixty (60) days after the appointment of such arbitrator, such arbitrator shall determine the matter which is the subject of the arbitration and shall issue a written opinion. The decision of the arbitrator shall be conclusively binding upon the parties, and judgment upon the decision may be entered in any court having jurisdiction; provided, however, that with respect to a dispute or question regarding a determination of Fair Rental Value or the value of either Landlord's or Tenant's interest in the Premises, the arbitrator must select one or the other of the valuations of Landlord and Tenant, and the decision so made by the arbitrator shall in all cases be conclusively binding upon the parties, and judgment upon the decision may be entered in any court having jurisdiction. Except with respect to an arbitration involving the determination of Fair Rental Value or fair market value, the losing party shall pay the fees and expenses of all arbitrators acting under this Section 26.01.

(c) Landlord and Tenant agree to sign all documents and to do all other things necessary to submit any such matter to arbitration and further agree to, and hereby do, waive any and all rights they or either of them may at any time have to revoke their agreement hereunder to submit to arbitration and to abide by the decision rendered thereunder. For such period, if any, as this agreement to arbitrate is not legally binding or the arbitrator's award is not legally enforceable, the provisions requiring arbitration shall be deemed deleted and matters to be determined by arbitration shall be subject to litigation.

(d) Any dispute or determination under this Lease which is specifically stated to be determined pursuant to Expedited Arbitration or where either party shall have the right to submit a dispute relating to the reasonableness of the grant or denial of a consent by the other party to binding arbitration, such dispute shall be determined under the Expedited Procedures provisions (Rules 56 through 60 in the April 1, 1997 edition) of the Arbitration Rules for the Real Estate Industry of AAA ("Expedited Arbitration"). In cases where the parties utilize such arbitration: (i) the parties will have no right to object if the arbitrator so appointed was on the list submitted by the AAA and was not objected to in accordance with Rule 54, (ii) the first hearing shall be held within seven (7) business days after the appointment of the arbitrator, (iii) if the arbitrator shall find that a party acted unreasonably in withholding or delaying a consent or approval, such consent or approval shall be deemed granted, and (iv) the losing party in such arbitration shall pay the arbitration costs charged by AAA and/or the arbitrator.

Section 26.02. Payment of Expenses in Certain Circumstances. (a) Whenever Landlord (i) is requested to give an approval or consent pursuant to any provision of this Lease (or other document related to the Premises or Tenant's rights hereunder, e.g., the Amended and Restated Easements Agreement dated as of August 1, 1999) or (ii) is required to enter into an NDA, Tenant shall pay for, or reimburse Landlord for, Landlord's reasonable out-of-pocket costs in reviewing or preparing plans or documents, including reasonable professional fees (such as legal, architectural, engineering, etc.) actually incurred.

(b) If Landlord unreasonably withholds an approval or consent under circumstances where Landlord may not unreasonably withhold an approval or consent, then, notwithstanding Subsection 26.02(a)(i) above, Tenant shall not be obligated to pay Landlord's legal fees and Landlord shall be obligated to pay Tenant's reasonable legal fees incurred in connection with the proceeding brought to establish Tenant's entitlement to the approval or consent. Conversely, if a proceeding establishes that Landlord acted reasonably in withholding its approval or consent, Tenant shall pay Landlord's reasonable legal fees incurred in the proceeding.

ARTICLE TWENTY-SEVEN

ENVIRONMENTAL MATTERS

Section 27.01. Tenant's Covenants. Tenant covenants and agrees that Tenant will not cause or permit the storage, treatment or disposal on, under or about the Building, or transport to or from the Building any "Hazardous Materials" (which term shall mean substances defined as "hazardous wastes" or "toxic substances" in the Comprehensive Environmental Response, Compensation and Liability Act, 42 U.S.C. ss.6901, et seq.,) or any other substances similarly defined pursuant to federal law and the laws of the State or City of New York in violation of Applicable Laws. In the event of a breach of the provisions of this Section 27.01, Landlord shall have the right, in addition to all other rights and remedies available to it under this Lease or at law, to require Tenant to remove or remediate any such Hazardous Materials from the Premises in the manner prescribed for such removal by Applicable Laws. The provisions of this Section 27.01 shall survive the expiration of this Lease.

Section 27.02. Indemnity. Tenant hereby indemnifies, saves and holds harmless Landlord from and against any and all costs, claims, damages, liabilities, losses and expenses (including, without limitation, reasonable attorneys' fees and disbursements) suffered or incurred by Landlord and arising from Tenant's breach of its covenants and/or agreements contained in this Article 27.

ARTICLE TWENTY-EIGHT

REPRESENTATIONS AND WARRANTIES OF LANDLORD; INDEMNITIES

Section 28.01. Representations and Warranties of Landlord. (a) Notwithstanding anything herein contained to the contrary, Landlord represents and warrants to, and covenants with, Tenant that the following are true on the Commencement Date: (i) Landlord owns fee title to the Land and Building, free and clear of liens, mortgages, encumbrances, claims, agreements, covenants, restrictions, easements, liens, or other matters affecting title to the Land and Building, except as set forth on Exhibit H annexed hereto; (ii) no persons or entities, other than Tenant and subtenants of Tenant, shall have any right to possession or use of all or any part of the Premises from and after the Commencement Date, other than as expressly set forth elsewhere in this Lease; (iii) no person has an option to purchase all or any part of the Property; (iv) no lien or encumbrance, other than Real Estate Taxes which are not yet due and payable and the matters set forth on Exhibit H annexed hereto, has been levied or assessed against, or imposed upon, the Property; (v) Landlord has no knowledge of any pending or threatened proceeding or public improvements which might result in the levy of any special assessment against the Property; (vi) there is no pending eminent domain proceeding affecting the Property, and Landlord has received no notice of any pending or threatened eminent domain proceeding; and (vii) there are no claims, actions, proceedings, orders or disputes pending, or to the knowledge of Landlord, threatened against or affecting the Property or Landlord's interest therein and there are no existing orders, judgments or decrees of any court or governmental authority affecting the Property or Landlord's interest therein.

(b) Landlord represents and warrants to Tenant:

(i) That, to the best of Landlord's knowledge, there are no actions, suits or proceedings pending or, to the knowledge of Landlord, threatened against or affecting Landlord, at law or in equity or before any governmental authority which would impair Landlord's ability to perform Landlord's obligations under this Lease;

(ii) That this Lease has been duly authorized, executed and delivered by Landlord, and (subject to the provisions hereof) constitutes the legal, valid and binding obligation of Landlord; and

(iii) That, to the best of Landlord's knowledge, the consummation of the transactions hereby contemplated and the performance of this Lease will not result in any breach or violation of, or constitute a default under any lease, bank loan or credit agreement to which Landlord is a party.

Section 28.02. Negative Covenants. Except as otherwise expressly provided in this Lease, Landlord covenants and agrees that from and after the date hereof, if the same would (other than in a de minimis manner) reduce the value of the Property, Landlord shall not: (i)

create or permit to be created any lien, encumbrance, easement, covenant, restriction or any other matter of record against the Premises or the Property (it being agreed by the parties hereto that any financing or refinancing of the Building shall not be deemed to reduce the value of the Property); (ii) modify, amend, terminate, suspend or otherwise impair the certificate of occupancy for the Building; or (iii) amend, modify, terminate or otherwise impair any covenant, agreement, easement or other matter listed in Exhibit H annexed hereto. Supplementing the foregoing, except to the extent then required by Applicable Law, Landlord shall not (except as expressly permitted elsewhere in this Lease) violate any of the foregoing covenants contained in clauses (i) through (iii) above, if violation thereof would (other than in a de minimis manner) adversely affect Tenant's use of the Premises or adversely affect Tenant's rights under this Lease.

Section 28.03. Landlord's Indemnity. Landlord hereby indemnifies, saves and holds Tenant harmless from and against any and all liability, damages, claims, losses, costs and expenses (including, without limitation, reasonable attorneys' fee and disbursements) suffered or incurred by Tenant and to the extent arising out of or in connection with the breach of any representations, warranties, agreements and/or covenants of Landlord under this Article 28.

Section 28.04. Tenant's Indemnity. Tenant hereby indemnifies, saves and holds Landlord harmless from and against any and all liability, damages, claims, losses, costs and expenses (including, without limitation, reasonable attorneys' fees and disbursements) suffered or incurred by Landlord and to the extent arising out of or in connection with (i) the breach of any representations, warranties, agreements and/or covenants of Tenant under Subsection 31.01(m) below, or (ii) the existence of one or more conditions which are the subject of such representations and warranties (regardless of whether the existence of such condition(s) constitutes a breach of such representations or warranties).

ARTICLE TWENTY-NINE

LANDLORD'S LIABILITY

Section 29.01. Landlord's Liability. Tenant shall look only to Landlord's estate, interest and property in the Property (including for these purposes, if applicable, the Letter of Credit described in Section 24.01(b) or cash proceeds thereof) for the satisfaction of Tenant's remedies hereunder or, for the collection of a judgment (or other judicial process) requiring the payment of money by Landlord in the event of any default by Landlord hereunder, and no other property or assets of Landlord or of Landlord's partners, officers, directors, shareholders or principals, disclosed or undisclosed, shall be subject to levy, execution or other enforcement procedure for the satisfaction of Tenant's remedies under or with respect to this Lease, the relationship of Landlord and Tenant hereunder or Tenant's use or occupancy of the Premises. Landlord's estate, interest and property in the Property shall include (from and after the date of such default, act or omission by Landlord) all rents received by Landlord with respect to the Property (or any portion thereof), the consideration or proceeds of any sale or other conveyance of Landlord's estate,

interest and property in the Property (or any portion thereof), the proceeds of a financing or refinancing received by Landlord from the grant of any mortgage interest in Landlord's estate, interest and property in the Property (or any portion thereof), and any insurance proceeds or Awards relating to the Property, to the extent not previously applied to the restoration of the Property. For the purposes of this Section 29.01, the terms "consideration" and "proceeds" of a sale, conveyance or financing shall not include the amount of indebtedness, theretofore secured by a third-party mortgage lien against the Property, repaid by such consideration or proceeds.

ARTICLE THIRTY

Intentionally Omitted

ARTICLE THIRTY-ONE

MISCELLANEOUS

Section 31.01. Certain Miscellaneous Provisions. (a) This Lease (including the Exhibits referred to herein and all supplementary agreements provided for herein) and the Easements Agreement contain the entire agreement between the parties, and except for the Easements Agreement, all prior negotiations and agreements are merged into this Lease.

(b) This Lease may not be changed, modified, terminated or discharged, in whole or in part, except by a writing, executed by the party against whom enforcement of the change, modification, termination or discharge is sought.

(c) The Article and Section headings or titles in this Lease are inserted for convenience only and are not to be given any effect in its construction.

(d) Wherever appropriate in this Lease, personal pronouns shall be deemed to include the other genders and the singular to include the plural.

(e) The covenants and agreements contained herein shall inure to and be binding upon Landlord, its successors and assigns, and Tenant, its successors and assigns.

(f) Except as expressly set forth herein or in any SNDA, any party succeeding to or acquiring any part of the interest of any party "Landlord" hereunder shall automatically take the same subject to such liability and indebtedness to Tenant as said party "Landlord" may have had under this Lease prior to said successor party's acquisition or succession, subject, however, to any valid defenses or offsets that would have been available to such party "Landlord" under this Lease.

(g) The term "Prime Rate" shall mean the rate of interest announced publicly by Citibank, N.A., or its successor, from time to time, as the rate of interest to its most credit-worthy customers on commercial loans having a duration of ninety (90) days.

(h) The term "Excusable Delays" as used in this Lease shall mean any delay due to strikes, lockouts or other labor or industrial disturbance, civil disturbance, future order of any government, court or regulatory body claiming jurisdiction, act of the public enemy, war, riot, sabotage, blockade, embargo, inability to secure materials, supplies or labor through ordinary sources by reason of shortages or priority or similar regulation or order of any government, court or regulatory body, lightning, earthquake, fire, storm, hurricane, tornado, flood, washout, explosion, or any cause whatsoever beyond the reasonable control of the party from whom performance is required, or any of its contractors or other representatives, whether or not similar to any of the causes hereinabove stated; provided, however, that for purposes of this definition, a party's lack of funds shall not be deemed to be a cause beyond the control of such party.

(i) The term "person" shall mean any natural person or persons, a partnership, a corporation, and any other form of business or legal association or entity, unless otherwise expressly stated. An "Affiliate" of a particular person shall mean any other person which controls, is controlled by or is under common control with, the particular person.

(j) The term "Tenant" shall mean the Tenant herein named or any assignee or other successor in interest (immediate or remote) of the Tenant herein named, which at the time in question is the owner of the Tenant's estate and interest granted by this Lease; but the foregoing provisions of this Subsection (j) shall not be construed to permit any assignment of this Lease or to relieve the Tenant herein named or any assignee or other successor in interest (whether immediate or remote) of the Tenant herein named from the full and prompt payment, performance and observance of the covenants, obligations and conditions to be paid, performed and observed by Tenant under this Lease, except as specifically set forth elsewhere in this Lease.

(k) The term "Landlord" shall mean only the owner, at the time in question, of the Building, or Landlord's interest in a superior lease of the Building, so that in the event of any transfer or transfers of title to the Building or of Landlord's interest in a superior lease of the Building, the transferor shall be and hereby is relieved and freed of all obligations of Landlord under this Lease accruing after such transfer, provided that such transferee shall have entered into a written agreement with Tenant whereby such transferee shall assume and agree to perform and observe all obligations of Landlord herein during the period that such transferee is the holder of Landlord's interest under this Lease. The foregoing provisions shall not be construed to permit any transfer by Landlord except as specifically set forth elsewhere in this Lease.

(l) The primary remedies of a party in cases where such party disputes the other's reasonableness in exercising its judgment or withholding or delaying any consent or approval expressly required pursuant to a specific provision of this Lease shall be those remedies in the nature of an injunction, declaratory judgment or specific performance, or arbitration as set forth

in Subsection 26.01(d) above; and such party's right to seek money damages shall be limited to actual compensatory damages, and shall be available only in instances where (i) said primary remedies shall be unavailable or inadequate, or (ii) the party whose reasonableness is being disputed shall have acted in bad faith.

(m) Tenant represents and warrants:

(i) That, to the best of Tenant's knowledge, there are no actions, suits or proceedings pending or, to the knowledge of Tenant, threatened against or affecting Tenant, at law or in equity or before any governmental authority which would impair Tenant's ability to perform its obligations under this Lease;

(ii) That this Lease has been duly authorized, executed and delivered by Tenant, and (subject to the provisions hereof) constitutes the legal, valid and binding obligation of Tenant; and

(iii) That, to the best of Tenant's knowledge, the consummation of the transactions hereby contemplated and the performance of this Lease will not result in any breach or violation of, or constitute a default under any lease, bank loan or credit agreement to which Tenant is a party.

(n) This Lease may be executed in counterparts, all of which taken together shall constitute one and the same original, and the execution of separate counterparts by Landlord and Tenant shall bind Landlord and Tenant as if they had executed the same counterparts.

Section 31.02. Governing Law. This Lease shall be governed (i) in all respects by the law of the State of New York, and (ii) the provisions hereof, without the aid of any canon, custom or rule of law requiring construction against the party drafting the provision in question.

Section 31.03. Memoranda Agreements. Each of Landlord and Tenant shall, at the other's request, execute, acknowledge and deliver a memorandum or short-form of this Lease, and memoranda or short-forms of all agreements supplementary hereto, which the requesting party may, at such party's expense, file and record of record.

Section 31.04. Additional Rent. If Tenant shall fail to pay to the appropriate taxing authority such Real Estate Taxes as Tenant is required to pay under this Lease prior to the last date when the same is payable without penalty, Landlord may, after ten (10) days notice thereof to Tenant (and Tenant's failure to pay the same within said ten (10) day period), pay the same, and Tenant shall within ten (10) days after notice of such payment by Landlord, reimburse Landlord for the amount thereof (including penalties and interest (if any)), with interest thereon at the Prime Rate from the date of such payment by Landlord to the date of reimbursement. Such obligation of Tenant, if not timely so paid, shall constitute "Additional Rent" payable hereunder

by Tenant to Landlord, and together with Annual Rental shall be included in the terms "rent" and "rental."

Section 31.05. Estoppel Certificates. Each of Landlord and Tenant shall, upon not less than fifteen (15) days notice from the other party, execute, acknowledge and deliver to the other a written statement certifying that this Lease is unmodified and in full force and effect (or, if this Lease shall have been modified, listing such modifications), the dates to which Annual Rental and Additional Rent have been paid and whether or not, to the best knowledge of such party, the other party is in default of any of its obligations under this Lease and such other reasonable matters reasonably requested by the relevant third parties for whom such estoppel certificates are being procured.

Section 31.06. No Merger. There shall be no merger of this Lease, or the leasehold estate created by this Lease, with any other estate or interest in the Premises, or any part thereof, by reason of the fact that the same person may acquire or own or hold, directly or indirectly, (i) this Lease or the leasehold estate created by this Lease, or any interest in this Lease or in any such leasehold estate, and (ii) any such other estate or interest in the Premises or any part thereof; and no such merger shall occur unless and until all persons having an interest (including a security interest) in (a) this Lease or the leasehold estate created by this Lease and (b) any such other estate or interest in the Premises, or any part thereof, shall join in a written instrument effecting such merger and shall duly record the same.

Section 31.07. Business Days. The term "business days" shall mean all days other than Saturdays, Sundays and those holidays observed by the federal government and New York State as holidays.

Section 31.08. Hold-over. If Tenant shall hold-over after the expiration of this Lease, the parties hereby agree that Tenant's occupancy of the Premises after the expiration of the term shall be under a month-to-month tenancy commencing on the first day after the Expiration Date, and shall be upon all of the terms and conditions set forth herein, except that Tenant shall pay for each month of Tenant's continued use and occupancy of the Premises during which Tenant shall hold-over a sum equal to one-twelfth (1/12) of: (x) one hundred ten (110%) percent of the Annual Rental which would have been payable by Tenant had Tenant exercised its Renewal Option (as such amount is determined in accordance with Section 4.04(a)(i)), plus (y) the Additional Rent paid by Tenant during the preceding twelve (12) months pursuant to Sections 4.02 and 4.03 of this Lease; provided, however, that if Tenant shall not have vacated the Premises as a result of an Excusable Delay, or if Tenant shall have been conducting good faith negotiations with Landlord in connection with a renewal or extension of this Lease beyond the expiration of the Initial Term or the Renewal Term, then, for the ninety (90) day period following the expiration of this Lease, the reference in clause (x) above to one hundred ten (110%) percent shall be deemed to be one hundred (100%) percent. The payment provided in this Section 31.08 shall be in lieu of any other remedy or payment that shall be available to Landlord under this

Lease or at law, including, without limitation, damages, for holding-over, but the same shall not detract from Landlord's right to continue to seek to obtain possession of the Premises.

Section 31.09. Financial Statements. Within fifteen (15) days following Landlord's written request therefor, but no more frequently than once in any six (6) month period, Tenant shall submit to Landlord a copy of Tenant's most recent audited consolidated financial statement.

Section 31.10. Ise Sublease. Simultaneously or nearly so herewith, Tenant has entered into a sublease with an affiliate of Landlord (the "Ise Sublease"). In the event that any or all of the space demised under the Ise Sublease becomes subject to Tenant's exclusive control, the Annual Rental hereunder shall be increased by an amount which is the product of the rentable square footage of the space demised under the Ise Sublease that becomes subject to Tenant's exclusive control times 0.35 times the Annual Rental per rentable square foot of the balance of the Premises demised hereunder. For the purposes of this calculation, the rentable square footage of the space demised under the ISE Sublease is 3,608 and the rentable square footage of the balance of the Premises demised hereunder is 223,200. Thus, by way of example, if 2,000 rentable square feet of the space demised under the ISE Sublease becomes subject to Tenant's exclusive control during the time the Annual Rental per rentable square foot is \$4,200,000/223,200 (or \$18.82 per rental square foot), the Annual Rental will be increased by \$13,174 (that is, \$18.82 times 0.35 times 2,000). Thereafter, when the Annual Rental as set forth on Schedule 2 hereof is increased, the amount to be added to the Annual Rental for the former ISE Sublease space will be appropriately adjusted to reflect the increase in the Annual Rental per square foot of the balance of the Premises demised hereunder.

Section 31.11. Transfer of Ownership. Tenant acknowledges and accepts the transfer of ownership of the Property from the named Landlord under the Prior Lease to the named Landlord under this Lease.

Section 31.12. Reduced FAR. Landlord acknowledges that Tenant shall have no liability to Landlord for any subsequent reduction in the floor area of the Building that might come about or be required by Applicable Law if, as a result of the enforcement by Landlord of any of Tenant's restoration obligations hereunder, one or more governmental or quasi-governmental authorities determine that there is an increase in the measurable floor area of the Building and requires a reduction of the floor area of the Building in connection therewith. The provisions of this Section 31.12 shall survive the expiration or earlier termination of this Lease.

ARTICLE THIRTY-TWO

SECURITY

Section 32.01. Security. (a) Landlord acknowledges that Tenant has delivered to Landlord or, at Landlord's direction, to Landlord's Mortgagee, as the case may be, a irrevocable

standby and "evergreen" letter of credit (the "Tenant's Letter of Credit", a copy of which is substantially in the form attached hereto as Exhibit I) as security for the performance of Tenant's obligations under this Lease, in the amount of \$1,000,000.

(b) In the event that an Event of Default shall occur and be continuing, Landlord or, for so long as Landlord's Mortgagee shall be the beneficiary of Tenant's Letter of Credit, Landlord's Mortgagee, as the case may be, may apply the whole or any part of the proceeds of the Tenant's Letter of Credit or any cash security then held by Landlord or, for so long as Landlord's Mortgagee shall be the beneficiary of Tenant's Letter of Credit, Landlord's Mortgagee, as the case may be, so deposited to the extent required for the payment of (i) Annual Rental or Additional Rent, or (ii) any sum which Landlord or, for so long as Landlord's Mortgagee shall be the beneficiary of Tenant's Letter of Credit, Landlord's Mortgagee, as the case may be, may reasonably expend to cure such Event of Default. If Landlord or, for so long as Landlord's Mortgagee shall be the beneficiary of Tenant's Letter of Credit, Landlord's Mortgagee, as the case may be, applies or retains any part of the Tenant's Letter of Credit in accordance with the foregoing, Tenant shall, within thirty (30) days after demand therefor by Landlord or, for so long as Landlord's Mortgagee shall be the beneficiary of Tenant's Letter of Credit, Landlord's Mortgagee, as the case may be, deposit with Landlord or, for so long as Landlord's Mortgagee shall be the beneficiary of Tenant's Letter of Credit, Landlord's Mortgagee, as the case may be, a sum equal to the amount so used, applied or retained, as security as aforesaid, or a suitable replacement Tenant's Letter of Credit, failing which Landlord or, for so long as Landlord's Mortgagee shall be the beneficiary of Tenant's Letter of Credit, Landlord's Mortgagee, as the case may be, shall have the same rights and remedies as for the nonpayment of Annual Rental beyond the applicable grace period.

(c) If, on the Expiration Date or sooner termination of this Lease, Tenant is in compliance with the Financial Test and Tenant shall not be (I) in default of any of Tenant's monetary obligations under this Lease, or (II) in material default of any of Tenant's non-monetary obligations under this Lease (it being agreed for the purposes hereof that a material default of a non-monetary obligation shall be limited to a default which, if not cured by Tenant, would cause monetary damages to Landlord or would jeopardize Landlord's interest in the Building), Landlord shall return or shall cause to be returned the Tenant's Letter of Credit (or any cash security then held by Landlord or, for so long as Landlord's Mortgagee shall be the beneficiary of Tenant's Letter of Credit, Landlord's Mortgagee, as the case may be) to Tenant on the Expiration Date or on such earlier date on which this Lease may terminate in accordance with the provisions of this Lease, together with a letter, duly signed and acknowledged by Landlord or, for so long as Landlord's Mortgagee shall be the beneficiary of Tenant's Letter of Credit, Landlord's Mortgagee, as the case may be, (x) stating that Landlord or, for so long as Landlord's Mortgagee shall be the beneficiary of Tenant's Letter of Credit, Landlord's Mortgagee, as the case may be, has relinquished all of Landlord's or, for so long as Landlord's Mortgagee shall be the beneficiary of Tenant's Letter of Credit, Landlord's Mortgagee's (as the case may be) rights and interest in the Tenant's Letter of Credit and (y) authorizing the issuing bank to cancel the Tenant's Letter of Credit.

(d) If, on the Expiration Date or sooner termination of this Lease, Tenant does not meet the Financial Test and Tenant has restoration obligations pursuant to Section 11.04, Tenant's Letter of Credit shall remain outstanding and shall be kept current by Tenant until Tenant's restoration obligation is fully discharged and Tenant has met the requirements (other than the Financial Test) for return of the Tenant's Letter of Credit set forth in Subsection 32.01(c) above, whereupon Landlord shall return or shall cause to be returned the Tenant's Letter of Credit (and any cash security then held by Landlord, or for so long as Landlord's Mortgagee shall be the beneficiary of Tenant's Letter of Credit, Landlord's Mortgagee, as the case may be) to Tenant together with the letter described in Subsection 32.01(c) above.

(e) In the event of a transfer of Landlord's interest in the Property or Landlord's Mortgagee's interest in the Mortgage (and only in such events), Landlord or, for so long as Landlord's Mortgagee shall be the beneficiary of Tenant's Letter of Credit, Landlord's Mortgagee, as the case may be, shall have the right to transfer the Tenant's Letter of Credit, or any sums collected thereunder by Landlord or, for so long as Landlord's Mortgagee shall be the beneficiary of Tenant's Letter of Credit, Landlord's Mortgagee, as the case may be, from the issuing bank, to the transferee in accordance with all requirements of the issuing bank, and Landlord or, for so long as Landlord's Mortgagee shall be the beneficiary of Tenant's Letter of Credit, Landlord's Mortgagee, as the case may be, shall thereupon be released by Tenant from all liability for the return or payment of the amount transferred, and Tenant shall look solely to the new Landlord or, if designated by Landlord as the transferee, the new Landlord's Mortgagee, as the case may be, for the return or payment of the same.

(f) If Landlord, or for so long as Landlord's Mortgagee shall be the beneficiary of Tenant's Letter of Credit, Landlord's Mortgagee, as the case may be, shall be holding any part of the proceeds of the Tenant's Letter of Credit as cash security, the same shall be placed by Landlord or, so long as Landlord's Mortgagee shall be the beneficiary of Tenant's Letter of Credit, Landlord's Mortgagee, as the case may be, in a bank or similar institutional interest-bearing account, and the interest earned thereon shall be disbursed annually by Landlord, or for so long as Landlord's Mortgagee shall be the beneficiary of Tenant's Letter of Credit, Landlord's Mortgagee, as the case may be, to Tenant.

(g) Landlord agrees to pay the transfer fee of the issuing bank in the event of a transfer of Tenant's Letter of Credit pursuant to Subsection 32.01(e) above.

ARTICLE THIRTY-THREE

IDA FINANCING

Section 33.01. IDA Financing. Landlord acknowledges that Tenant has obtained financing from the New York City Industrial Development Agency (the "IDA") in connection

with the Prior Lease (the "IDA Financing"). Accordingly, Landlord agrees that, if Tenant shall so request, Landlord shall cooperate with Tenant in connection with such IDA Financing, and any amendments, modifications, refinancings and replacements thereof, including, without limitation, if Tenant has or may enter into a leasing of personalty arrangement with the IDA, permitting the IDA access to the Premises to repossess such personalty if entitled to do so under the provisions of the IDA Financing documents; provided that Landlord shall not be deprived of any of the economic benefits or legal rights (including, without limitation, privity) or remedies set forth in this Lease, and that the same shall be accomplished without Landlord being required to incur any additional out-of-pocket cost or expense thereby (it being agreed and understood, however, that any cost or expense which Landlord is or would be contractually obligated or legally liable to pay to any third party or any governmental agency for any reason other than the cooperation requirement set forth in this Section 33.01 shall not be deemed or construed an "additional out-of-pocket cost or expense"). If any amendments, modifications, refinancings and replacements of such IDA Financing shall result in an additional out-of-pocket cost or expense to Landlord, Tenant shall nonetheless have the right to require Landlord's cooperation in connection therewith, provided that Tenant shall promptly reimburse Landlord for such additional out-of-pocket costs or expenses. Notwithstanding anything to the contrary contained herein, this Section 33.01 shall not impose any greater obligations on Landlord beyond those previously performed by Landlord with respect to the IDA Financing under the Prior Lease.

[SIGNATURES ON FOLLOWING PAGE]

THIS LEASE is hereby executed and delivered effective as of the day and year first above written.

LANDLORD:

ISE 555 BROADWAY, LLC

By: ISE HIYOKO, INC.
its Managing Member

By: /s/ Kimio Tabata

Kimio Tabata
Vice Chairman

TENANT:

SCHOLASTIC INC.

By: /s/ Larry V. Holland

Name: Larry V. Holland
Title: SVP

-62-

EXHIBIT A

DESCRIPTION OF LAND

ALL that certain plot, piece or parcel of land, situate, lying and being in the Borough of Manhattan, City, County and State of New York bounded and described as follows:

BEGINNING at a point on the westerly side of Broadway, distant 224 feet 8 inches northerly from the corner formed by the intersection of the westerly side of Broadway and the northerly side of Spring Street;

RUNNING THENCE westerly along the southerly face of the southerly wall of the building on the premises herein described, 200 feet 3 inches to the easterly side of Mercer Street at a point therein distant 225 feet 1/4 of an inch northerly from the northerly side of Spring Street, as measured along said easterly line of Mercer Street;

THENCE RUNNING northerly along the easterly side of Mercer Street, 99 feet 5 inches;

THENCE easterly on a line which forms an angle on its northerly side with easterly side of Mercer Street of 90 degrees 32 minutes 10 seconds 50 feet to an angle point.

THENCE easterly on a line drawn parallel with the southerly side of Prince Street and partly along the northerly face of the northerly wall of the building on the premises herein described, 150 feet 3 inches to the westerly side of Broadway; and

THENCE southerly along the westerly side of Broadway, 99 feet 1 inch to the point or place of BEGINNING.

Together with all improvements now or hereafter existing thereon.

Having a street address of 549-555 Broadway (a/k/a 120-126 Mercer Street), New York, New York.

EXHIBIT B

DESCRIPTION OF THE 557 LAND

ALL that certain plot, piece or parcel of land, situate, lying and being in the Borough of Manhattan, County of New York, City and State of New York, bounded and described as follows:

BEGINNING at a point on the westerly side of Broadway distant one hundred and one feet southerly from the corner formed by the intersection of the said westerly side of Broadway with the southerly side of Prince Street;

RUNNING THENCE westerly parallel with Prince Street, 200 feet to the easterly side of Mercer Street;

THENCE southerly along the said easterly side of Mercer Street, 50 feet;

THENCE easterly again parallel with Prince Street, 200 feet to the westerly side of Broadway; and

THENCE northerly along the said westerly side of Broadway, 50 feet to the point or place of BEGINNING.

EXHIBIT C
ELEVATOR LOCATION

[follows this page]

[second floor plan indicating future
elevator location]

EXHIBIT D
BATHROOM LOCATION

[follows this page]

[Second floor plans indicating optional
locations for proposed restrooms]

[Typical floor partial plan indicating
optional locations for proposed
restrooms - 555 Broadway]

EXHIBIT E
LANDLORD'S SIGN

[follows this page]

[Diagram of partial exterior
elevation indicating layout for
signs]

EXHIBIT F

LANDLORD'S LETTER OF CREDIT

[ISSUING BANK]

[Date]

Scholastic Inc.
555 Broadway
New York, New York 10003

Ref: Irrevocable Letter of Credit No. _____

Gentlemen:

By order of our client, ISE 555 Broadway, LLC, having an office at 555 Broadway, New York, New York, we hereby open in your favor our irrevocable standby Letter of Credit No. _____ for the aggregate sum of [amount described in Section ___ of this Lease] United States Dollars, (U.S. \$ _____) effective immediately and expiring at our [address of Bank] New York Office on _____ or any automatically extended date.

Funds under this Letter of Credit are available to you against presentation of your sight draft(s) drawn on us marked "drawn under Irrevocable Letter of Credit No. _____ date [date of Letter of Credit]", and accompanied by the following:

Beneficiary's signed statement that ISE 555 Broadway, LLC has failed to comply with the terms and conditions of a contract described as Amended and Restated Lease between ISE 555 Broadway, LLC, as Landlord, and Scholastic Inc. as Tenant, dated August 1, 1999 and that the beneficiary is entitled to draw on this Letter of Credit.

It is a condition of this Letter of Credit that it shall be deemed automatically extended without amendment for one year from the present or any future expiration date hereof, unless thirty (30) days prior to any such date we shall notify you by registered mail that we elect not to consider this Letter of Credit renewed for any such additional period. Upon receipt by you of such notice, you may draw hereunder by means of your draft on us at sight, accompanied by the original Letter of Credit.

This Letter of Credit is transferrable in whole but not in part by the beneficiary upon notice to the undersigned, together with the payment of a transfer charge of one-quarter of one percent of the amount of this Letter of Credit. Requests for transfer will be in the form of Annex A attached hereto, duly completed by an officer of your company and accompanied by the original of this Letter of Credit.

If we receive your sight draft as mentioned above, in accordance with the terms and conditions of this credit, here at our [address], New York Office we will promptly honor the same.

This Letter of Credit is subject to the Uniform Customs and Practice for Documentary Credits (1993 Revision) International Chamber of Commerce Brochure No. 500, shall be deemed to be a contract made under, and as to matters not governed by the UCP, shall be governed by and construed in accordance with the laws of the State of New York and applicable U.S. Federal Law.

[Name of Bank]

By: _____
Authorized Signature
Title:

[ANNEX A TO BE ADDED BY ISSUING BANK, IF REQUIRED]

EXHIBIT G

NON-DISTURBANCE, SUBORDINATION AND ATTORNMENT AGREEMENT

THIS AGREEMENT (this "Agreement"), made as of this ____ day of _____, _____, by and between _____, a _____ with its principal place of business located at _____ (the "Mortgagee"), and SCHOLASTIC INC., a New York corporation having an address at 555 Broadway, New York, New York 10003 ("Tenant").

W I T N E S S E T H

WHEREAS, Tenant is the tenant under and pursuant to that certain amended and restated lease (the "Lease"), dated as of August 1, 1999, with Ise 555 Broadway, LLC, a New York limited liability company ("Landlord"), as landlord, pursuant to which Tenant leased the entire building (the "Premises") located at 555 Broadway, New York, New York, as more particularly set forth in the Lease;

WHEREAS, Landlord, Tenant, and Carol Blechman, Donald Blechman, Howard Blechman, Noma Joan Blechman, Stephen Blechman, Norma Gastwirth (formerly known as Norma Blechman) and Nauma Blechman Levin (formerly known as Nauma Blechman) (collectively, the "557 Landlord") entered into an Amended and Restated Easements Agreement dated as of August 1, 1999, pursuant to which Landlord granted to Tenant and/or the 557 Landlord certain easements and rights as more particularly set forth therein (such agreement, as it may be amended and/or restated from time to time with, so long as the Mortgage (as hereinafter defined) shall be in full force and effect, Mortgagee's written consent (which consent shall not be unreasonably withheld or delayed), the "Easements Agreement"), which Easements Agreement is intended to be recorded simultaneously or nearly so with the recording of this Agreement and which Easements Agreement amends and restates in its entirety the easements agreement dated as of July 10, 1998, recorded on August 26, 1998 in Reel 2689 Page 00792;

WHEREAS, Mortgagee is the owner and holder of those certain mortgages as more particularly described on Schedule A annexed hereto (collectively, the "Mortgage"). The Mortgage secures a loan made by Mortgagee to Landlord (the "Loan");

WHEREAS, the Mortgage constitutes a lien upon all of Landlord's right, title and interest in and to that certain property (the "Mortgaged Property") situated in the Borough of Manhattan, City, County and State of New York, as more particularly described in Schedule B annexed

hereto, and the building located thereon commonly known as 555 Broadway, New York, New York; and

WHEREAS, Tenant has agreed to subordinate the Lease to the Mortgage and to the lien thereof, and Mortgagee has agreed to grant non-disturbance to Tenant under the Lease, on the terms and conditions hereinafter set forth;

NOW, THEREFORE, in consideration of the mutual promises hereinafter contained and other good and valuable consideration, the receipt and sufficiency whereof are hereby acknowledged, Tenant and Mortgagee, intending to be legally bound, hereby covenant and agree as follows:

1. So long as Tenant is not in default under the Lease after the expiration of all applicable notice and cure periods provided for therein, Mortgagee and Tenant each expressly agrees, on behalf of itself and its successors and assigns, to the following:

(a) Tenant's possession and occupancy of the Premises and Tenant's rights and privileges under the Lease shall not be disturbed by Mortgagee.

(b) Tenant shall not be named or joined by Mortgagee as a party defendant in any action or proceeding or trustee's sale which may be instituted or commenced by Mortgagee to foreclose or enforce the Mortgage, unless Tenant is deemed a necessary party by the court, in which event Tenant may be so named or joined, but such naming or joining shall not otherwise be in derogation of the rights of Tenant set forth in this Agreement.

(c) Any insurance proceeds or Awards (as such term is defined in the Lease) shall be applied and distributed as provided in the Lease. Notwithstanding anything to the contrary herein or in the Lease, all fire and casualty insurance proceeds and Awards shall be held by an independent third party trustee selected by Mortgagee and reasonably acceptable to Tenant (the "Insurance Trustee"), which trustee shall be deemed acceptable if such trustee shall be a major money center bank with a branch office in New York City. The Insurance Trustee shall be paid a reasonable and customary fee, which amount shall be paid out of the fire and casualty insurance proceeds or Award.

(i) The Insurance Trustee shall distribute to Tenant all fire and casualty insurance proceeds actually received by the Insurance Trustee such that Tenant can restore the Premises in accordance with Section 9.01(a) of the Lease, subject to the following provisions. Within ten (10) days after request by Tenant therefor, the Insurance Trustee shall release to Tenant thirty percent (30%) of such fire and casualty insurance proceeds, which Tenant agrees to hold as a trust fund for expenses due and owing, incurred or to be incurred by Tenant in connection with the restoration of the Premises in accordance with the provisions of the Lease. Within ten (10) days after receipt by the Insurance Trustee of (A) receipted invoices or other

sufficient evidence showing the expenses incurred by Tenant in connection with the restoration of the Premises theretofore performed, (B) a certification of Tenant's architect or engineer that the restoration of the Premises is proceeding on schedule and in accordance with the provisions of the Lease, and (C) a certification by Tenant that Tenant has utilized the first thirty (30) percent of such fire and casualty insurance proceeds in connection with the restoration of the Premises (collectively, the "Deliveries"), the Insurance Trustee shall advance to Tenant the next installment of thirty percent (30%) of such fire and casualty insurance proceeds. The third installment of thirty percent (30%) of such fire and casualty insurance proceeds shall be advanced to Tenant by the Insurance Trustee within ten (10) days after receipt by the Insurance Trustee of the Deliveries with respect to the second thirty (30) percent of such fire and casualty insurance proceeds in connection with the restoration of the Premises. The Insurance Trustee shall retain the final ten percent (10%) of such fire and casualty insurance proceeds until Tenant's restoration shall have been substantially completed, and (x) receipted invoices or other sufficient evidence showing the expenses incurred by Tenant in connection with the restoration of the Premises theretofore performed, and (y) final waivers of lien from all contractors, subcontractors and materialmen who have furnished materials or supplies or performed work or services in connection with the restoration of the Premises, shall have been delivered by Tenant to the Insurance Trustee, which final ten percent (10%) of such fire and casualty insurance proceeds shall be paid to Tenant within ten (10) days thereafter. Any excess fire and casualty insurance proceeds held by the Insurance Trustee upon the completion of the restoration or repair of the Premises in accordance with the provisions of the Lease, as certified to the Insurance Trustee and Mortgagee by the Tenant and Tenant's architect or engineer, shall be paid to Tenant within ten (10) days after written demand therefor by Tenant. Notwithstanding anything to the contrary set forth in this Agreement, neither the Insurance Trustee nor the Mortgagee shall have any right to approve of, or consent to, the restoration of the Premises or any aspect thereof or any plans and specifications for the restoration of the Premises.

(ii) The Insurance Trustee shall distribute to Tenant Tenant's share of the Award as provided in the Lease, and shall distribute Landlord's share of the Award as provided in the Mortgage. To the extent Tenant's share of the Award is required to be used to restore the Premises (a "Restoration Award"), the Insurance Trustee shall distribute the same to Tenant in accordance with the provisions set forth in Paragraph (i) above. All Awards due Tenant under the Lease which are not Restoration Awards shall be paid by the Insurance Trustee to Tenant within ten (10) days after written demand therefor by Tenant.

(d) The Mortgage shall be subject and subordinate to the Easements Agreement.

2. If Mortgagee shall succeed to the rights of the Landlord under the Lease, whether through possession, termination or cancellation of the Lease, surrender, assignment, judicial action, sublettings, foreclosure action or delivery of a deed or otherwise, and, provided no event of default then exists under the Lease beyond the applicable notice and cure periods of the Lease

and this Agreement, Tenant shall attorn to and recognize Mortgagee as its landlord and Mortgagee shall accept such attornment and recognize Tenant's rights of possession and use of the Premises in accordance with the terms, covenants and conditions of the Lease immediately upon Mortgagee's succeeding to the interests of the Landlord under the Lease (said attornment to be effective and self-operative without the execution of any further instruments, but Tenant nevertheless agrees to execute any instruments or documents reasonably satisfactory to Mortgagee and Tenant to confirm such attornment and/or otherwise carry out the intent and purposes of this Agreement). The respective rights and obligations of Tenant and Mortgagee upon such attornment shall be the same during the balance of the term of the Lease, including any extensions or renewals of the term of the Lease, as the respective rights and obligations of Landlord and Tenant under the Lease as if Mortgagee and Tenant had entered into a direct lease upon the terms of the Lease, except as provided in Paragraph 3 below; it being the intention of the parties hereto for this purpose to incorporate the Lease in this Agreement by reference with the same force and effect as if set forth at length herein. Tenant acknowledges that, except as provided below, the provisions of Section 2.03 of the Lease shall not apply to any foreclosure sale of the Mortgage or to the delivery of a deed in lieu of foreclosure of the Mortgage. Notwithstanding the foregoing, so long as Tenant is not in default under the Lease after the expiration of all applicable notice and cure periods provided for therein, in the event that any such delivery of a deed in lieu of foreclosure will be to an entity which is not the then holder of the Mortgage or its related or affiliated entity, then the then holder of the Mortgage shall give Tenant notice of such proposed transfer and the proposed consideration to be paid to the then holder of the Mortgage and the terms of such transfer, and Tenant shall have the right, by notice exercised within sixty (60) days after Tenant shall have received such notice, to receive the proposed deed in lieu of foreclosure for the same consideration and upon the same terms. If the grantee of the deed in lieu of foreclosure is Mortgagee or its related or affiliated entity, then the provisions of Section 2.03 of the Lease shall apply to any transaction whereby such grantee ceases to be Mortgagee or its related or affiliated entity (as if such transaction were a proposed sale of the Mortgaged Property.) Following any purchase of the Mortgaged Property at foreclosure or any transfer of the Mortgaged Property by deed in lieu of foreclosure, the provisions of Section 2.03 of the Lease shall apply to any subsequent proposed transfer of the Mortgaged Property.

3. Upon Mortgagee succeeding to the rights of Landlord under the Lease, Mortgagee, as landlord, shall not be:

(a) Liable to pay damages to Tenant caused by any breach, act, omission or negligence of any prior Landlord (including the then defaulting Landlord), but shall (subject to Tenant's having complied with the provisions of Paragraph 5 below) nonetheless remain subject to any and all abatements, deductions, offsets, claims, counterclaims and/or defenses which shall have accrued to Tenant against any prior landlord (including the then defaulting Landlord) prior to the date that Mortgagee shall have succeeded to the rights of Landlord under the Lease, but in any case, provided, however, such non-liability for damages shall neither diminish Mortgagee's

liability for continuing obligations of Landlord nor diminish Tenant's rights under the Lease with respect to the continuing failure of Mortgagee to perform the Landlord's obligations under the Lease after the date that Mortgagee succeeds to the interest of Landlord under the Lease and after the expiration of all applicable notice and cure periods provided for herein;

(b) Bound by any rent, additional rent or other items of rental under the Lease which Tenant might have paid for more than the current month to any prior Landlord (including the then defaulting Landlord); or

(c) Bound by the terms of any agreement amending, modifying, supplementing or terminating the Lease made without Mortgagee's written consent, which consent shall not be unreasonably withheld or delayed.

4. Tenant waives, and covenants not to exercise, any rights it may have to terminate or avoid the Lease arising out of any proceedings brought to foreclose or enforce the Mortgage, provided, however, that, so long as Tenant is not in default under the Lease after the expiration of all applicable notice and cure periods provided for therein, such proceeding shall not derogate the rights of Tenant under the Lease or the use and occupancy by Tenant (or its permitted assignees and subtenants) of the Premises, it being intended that the Lease shall survive any such proceedings.

5. (a) Tenant shall notify Mortgagee of any default by Landlord under the Lease which would entitle Tenant to cancel the Lease or abate the fixed rent, additional rent or other items of rental due and payable thereunder, and agrees that, notwithstanding any provisions of the Lease to the contrary, (i) no notice of cancellation thereof shall be effective unless Mortgagee shall have received notice of the default giving rise to such cancellation and shall have failed within five (5) business days (in the case of monetary defaults) or thirty (30) days (in the case of non-monetary defaults) after expiration of any time period available to Landlord (and subject to the same obligations applicable to Landlord) under the terms of the Lease to effect a cure thereof, and (ii) no notice of abatement shall be effective unless Mortgagee shall have received notice of the default giving rise to such abatement and shall have failed within the same time period available to Landlord (and subject to the same obligations applicable to Landlord) under the terms of the Lease to effect a cure thereof; provided, however, that, if Mortgagee shall not have been given notice of the default giving rise to such right of cancellation of the Lease or such right of abatement of rental concurrently with the giving of such notice of the default to Landlord, then the applicable cure periods provided above shall be deemed to be extended by one (1) day for each day from and after the giving of such notice of the default to Landlord that Mortgagee shall not have been given such notice of the default. Nothing contained in this Paragraph 5 shall be deemed to permit or require the further extension of the cure periods beyond the applicable cure periods provided in this Agreement, including, without limitation, in the event (i) of force majeure, (ii) Mortgagee shall have commenced to cure a default within the applicable time period but shall not have prosecuted the same to completion within said time period, and/or (iii)

possession of the Premises or the Mortgaged Property is required in order for Mortgagee to cure such default, or such default is not susceptible of being cured by Mortgagee.

(b) Landlord shall notify the holder of any leasehold mortgage on the interest of Tenant under the Lease (a "Leasehold Mortgagee") of any default by Tenant under the Lease, and agrees that, notwithstanding any provisions of the Lease to the contrary, no notice of default shall be effective unless such Leasehold Mortgagee shall have received notice of the default and shall have failed within five (5) business days (in the case of monetary defaults) or thirty (30) days (in the case of non-monetary defaults) after expiration of any time period available to Tenant (and subject to the same obligations applicable to Tenant) under the terms of the Lease to effect a cure thereof; provided, however, that, if the Leasehold Mortgagee shall not have been given notice of the default concurrently with the giving of such notice of the default to Tenant, then the applicable cure periods provided above shall be deemed to be extended by one (1) day for each day from and after the giving of such notice of the default to Tenant that the Leasehold Mortgagee shall not have been given such notice of the default.

6. Tenant acknowledges and agrees that the Lease and Tenant's right, title and interest under the Lease shall be subject and subordinate to the Mortgage (including all amendments, modifications, supplements, renewals and extensions at any time with respect thereto), and all advances made or to be made thereunder. Without limiting the foregoing, if Tenant shall desire to purchase the Mortgaged Property at any time during which the Mortgaged Property is subject to the Mortgage, Tenant shall have no right to purchase all or any part of the Mortgaged Property or the Premises, whether pursuant to Section 2.03 of the Lease or otherwise, unless Tenant shall comply with the provisions of clauses (i) through (vi) only of Subsection 10(f) and Section 12 of the Mortgage (it being acknowledged by the Mortgagee that (x) clauses (i) through (vi) of Subsection 10(f) shall be the only factors considered by Mortgagee in giving its consent to the sale or transfer of the Mortgaged Property, and (y) after the date that is the earlier of (i) four (4) years after the date of the Mortgage, and (ii) two years after the date of securitization of the Loan, Landlord (on behalf of and at the request of Tenant) may cause the release of the Mortgaged Property from the lien of the Mortgage and the other Loan Documents (as such term is defined in the Mortgage) in accordance with the provisions of Section 55 of the Mortgage, in which case, provided that the Mortgaged Property is released in accordance with the provisions of Section 55 of the Mortgage, the foregoing restrictions shall not apply.

7. Notwithstanding anything to the contrary contained in the Lease, Tenant acknowledges and agrees that in the event that Mortgagee shall succeed to Landlord's interest under the Lease (i) no shareholder, partner, director, officer, agent or employee of Mortgagee (collectively, the "Parties") shall be liable for the performance of the Mortgagee's obligation under the Lease; (ii) Tenant shall look to Mortgagee to enforce Mortgagee's obligations under the Lease and shall not seek any damages against any of the Parties; and (iii) the liability of Mortgagee for Mortgagee's obligations under the Lease shall not exceed and shall be limited to Mortgagee's estate, interest and property in the Mortgaged Property and Tenant shall not look to

any other property or assets of Mortgagee or the property or assets of any of the Parties in seeking either to enforce Mortgagee's obligations under the Lease or to satisfy a judgment for Mortgagee's failure to perform such obligations. Notwithstanding anything to the contrary contained herein, Mortgagee's estate, interest and property in the Mortgaged Property shall include all rents received by Mortgagee with respect to the Mortgaged Property (or any portion thereof), the consideration or proceeds of any sale or other conveyance of Mortgagee's estate, interest and property in the Mortgaged Property (or any portion thereof), the proceeds of a financing or refinancing received by Mortgagee from the grant of any mortgage interest in Mortgagee's estate, interest and property in the Mortgaged Property (or any portion thereof), and any insurance proceeds or Awards relating to the Mortgaged Property.

8. Tenant hereby represents and warrants to Mortgagee that as of the date hereof (i) Tenant is the owner and holder of the Tenant's interest under the Lease, (ii) the Lease has not been modified or amended, (iii) the Lease is in full force and effect pursuant to the provisions thereof and the term thereof has commenced, and (iv) to the best of Tenant's knowledge, neither Tenant nor Landlord is in default or in breach of any of the terms, covenants or provisions of the Lease.

9. Landlord hereby authorizes and directs Tenant to name the Mortgagee as the beneficiary of the Tenant's Letter of Credit (as such term is defined in the Lease), and Landlord agrees to return to Tenant the existing letter of credit under the Prior Lease (as such term is defined in the Lease), together with a letter, duly signed and acknowledged by Landlord, (a) stating that Landlord has relinquished all of Landlord's rights and interest in and to the existing letter of credit under the Prior Lease, and (b) authorizing the issuing bank to cancel the existing letter of credit under the Prior Lease simultaneously with the issuance of the Tenant's Letter of Credit naming the Mortgagee as the beneficiary. For so long as Mortgagee shall be the beneficiary of Tenant's Letter of Credit, Mortgagee agrees to comply with all obligations of Landlord under Article 32 of the Lease, including, without limitation, such obligations of Landlord upon the expiration or earlier termination of the Lease, it being agreed that Landlord shall be bound by all actions taken by Mortgagee under Article 32 of the Lease as if Landlord had performed such actions itself. If, prior to the expiration or earlier termination of the Lease, the Mortgage shall no longer be in effect, Mortgagee shall return to Tenant the Tenant's Letter of Credit, together with (i) a letter, duly signed and acknowledged by Mortgagee, (x) stating that Mortgagee has relinquished all of Mortgagee's rights and interest in and to the Tenant's Letter of Credit, and (y) authorizing the issuing bank to transfer Tenant's Letter of Credit to Landlord or to the subsequent holder of any refinanced or replaced mortgage on Landlord's fee estate in the Mortgaged Property designated by Landlord, (ii) transfer forms, duly signed and acknowledged by Mortgagee, required by the issuing bank, and (iii) payment of the transfer fee required by the issuing bank, which payment shall be made or provided for solely by Landlord on behalf of Mortgagee, it being agreed that Landlord shall be solely liable for (and Mortgagee shall not be liable for) any transfer fees required by the issuing bank.

10. All notices, consents and other communications pursuant to the provisions of this Agreement shall be in writing and shall be deemed to have been sufficiently given or served for all purposes as of the date (i) when hand delivered or (ii) five (5) business days after being sent by registered or certified mail, return receipt requested or (iii) the date actually received (as shown on a signed receipt) if sent by overnight courier to any party hereto at the following addresses:

If to Mortgagee:

Attention: _____
Telecopier: _____

with copies to:

Attention: _____
Telecopier: _____

and to:

Attention: _____
Telephone: _____

If to Tenant:

Scholastic Inc.
555 Broadway
New York, New York 10012
Attention: Mr. Larry V. Holland

with copies to:

Scholastic Inc.
555 Broadway
New York, New York 10012
Attention: Charles Deull, Esq.

Stroock & Stroock & Lavan LLP
180 Maiden Lane
New York, New York 1003884982
Attention: Jacob Bart, Esq.

Each party may designate a change of address by notice to the other party, given at least fifteen (15) days before such change of address is to become effective.

11. To the extent that the Lease shall entitle Tenant to notice of any mortgage, this Agreement shall constitute such notice to Tenant with respect to the Mortgage.

12. Whenever used in this Agreement, unless the context clearly indicates a contrary intent or unless otherwise specifically provided herein, the word "Tenant" shall mean "Tenant or any subsequent holder of an interest under the Lease, provided the interest of such holder is acquired in conformance with the terms and conditions of the Lease"; "Mortgagee" shall mean "Mortgagee or any subsequent holder or holders of the Mortgage, or any party acquiring fee title to the Mortgaged Property or any part thereof by purchase at a foreclosure sale or by deed in lieu of foreclosure"; "Landlord" shall mean "the present landlord under the lease and such landlord's predecessors and successors and assigns." Pronouns of any gender shall include the other genders, and either the singular or plural shall include the other.

13. This Agreement shall inure to the benefit of and be binding upon the Tenant and Mortgagee, and each successor Tenant and Mortgagee, and may not be modified other than by a written instrument duly signed and delivered by Tenant and Mortgagee.

14. This Agreement may be executed in counterparts, all of which taken together shall constitute one and the same original, and the execution of separate counterparts by Tenant and Mortgagee shall bind Tenant and Mortgagee as if they had executed the same counterparts.

15. This Agreement shall be governed by and construed in accordance with the laws of the State of New York.

IN WITNESS WHEREOF, Tenant and Mortgagee have caused this agreement to be duly executed as of the date first above written.

Mortgagee:

Tenant:
SCHOLASTIC INC.

By: _____
Name:
Title:

By: _____
Name:
Title:

In order to induce Tenant and Mortgagee to enter into the foregoing Non-Disturbance, Subordination and Attornment Agreement, and for other good and valuable consideration, the receipt of which is hereby acknowledged, the undersigned hereby consents to each and every term and condition of such Agreement and to the execution of such agreement by Tenant and Mortgagee.

Landlord:

ISE 555 BROADWAY, LLC

By: ISE Hiyoko, Inc.,
its managing member

By: _____
Name:
Title:

STATE OF _____)
)
COUNTY OF _____)

On the ____ day of _____ in the year 1999, before me, the undersigned, a notary public in and for said state, personally appeared _____, personally known to me or proved to me on the basis of satisfactory evidence to be the individual whose name is subscribed to the within instrument and acknowledged to me that he executed the same in his capacity, and that by his signature on the instrument, the individual, or the person upon behalf of which the individual acted, executed the instrument.

Notary Public

STATE OF _____)
)
COUNTY OF _____)

On the ____ day of _____ in the year 1999, before me, the undersigned, a notary public in and for said state, personally appeared _____, personally known to me or proved to me on the basis of satisfactory evidence to be the individual whose name is subscribed to the within instrument and acknowledged to me that he executed the same in his capacity, and that by his signature on the instrument, the individual, or the person upon behalf of which the individual acted, executed the instrument.

Notary Public

STATE OF NEW YORK)
)
COUNTY OF NEW YORK)

On the ____ day of _____ in the year 1999, before me, personally came Kimio Tabata, to me known, who, being by me duly sworn, did depose and say that he resides at 3335 Galena Sassafras Road, Golts, Maryland; that he is the Vice Chairman of Ise Hiyoko, Inc., a Japanese corporation (the "Corporation"), the managing member of ISE 555 Broadway, LLC, the New York limited liability company (the "Limited Liability Company") named in the foregoing instrument; and that he has the authority to sign the same by order of the board of directors of the Corporation, as managing member of the Limited Liability Company and that he acknowledged that he executed the same as the act and deed of the Corporation and the Limited Liability Company.

Notary Public

SCHEDULE A

Mortgages

1. Mortgage made by Rouss Building, Inc. to The Beekman Estate dated 3/29/38, recorded 3/30/38 in Liber 4325 Mp. 138 to secure the sum of \$50,000.00 and interest.

ASSIGNMENT OF MORTGAGE

Mortgage(s) 1 was/were assigned by The Beekman Estate to Union Square Savings Bank by assignment dated 12/29/50, recorded 2/51, in Liber 5208 Mp. 112.

2. Mortgage made by Rouss Building Inc. to S. Blechman and Sons Inc. dated 11/1/38, recorded 11/29/38 in Liber 4347 Mp. 471 to secure the sum of \$30,000.00 and interest.

ASSIGNMENT OF MORTGAGE

Mortgage(s) 2 was/were assigned by S. Blechman and Sons Inc. to Simon Blechman Holdings Inc. by assignment dated 6/23/47, recorded 6/25/47, in Liber 4919 Mp. 13.

ASSIGNMENT OF MORTGAGE

Mortgage(s) 2 was/were assigned by Simon Blechman Holdings Inc. to William Blechman, Nathan S. Blechman, Raphael Blechman and Oscar Blechman by assignment dated 10/30/47, recorded 11/3/47, in Liber 4949 Mp. 454.

ASSIGNMENT OF MORTGAGE

Mortgage(s) 2 was/were assigned by William Blechman, Nathan S. Blechman, Raphael Blechman, Oscar Blechman and Simon Blechman Holdings Inc. to Union Square Savings Bank by assignment dated 12/28/50, recorded 2/51, in Liber 5208 Mp. 108.

3. Mortgage made by Rouss Building Inc. to The RFC Mortgage Company dated 4/13/39, recorded 4/18/39 in Liber 43644 Mp. 179 to secure the sum of \$160,000.00 and interest.

ASSIGNMENT OF MORTGAGE

Mortgage(s) 3 was/were assigned by The RFC Mortgage Company to Union Square Savings Bank by assignment dated 6/21/44, recorded 6/23/44, in Liber 4685 Mp. 548

Agreement Extending Mortgage Agreement made between Rouss Building Inc. and Union Square Savings Bank dated 12/29/50 recorded 1/16/51 in Liber 5211 Mp. 513. Consolidated mortgages 1 thru 3 to form a single lien of \$164,578.00.

ASSIGNMENT OF MORTGAGE

Mortgage(s) 1 thru 3 as consolidated was/were assigned by Union Square Savings Bank to Gindoff Export Corporation by assignment dated 3/7/60, recorded 3/7/60, in Liber 5881 Mp. 415.

ASSIGNMENT OF MORTGAGE

Mortgage(s) 1 thru 3 as consolidated was/were assigned by Gindoff Export Corporation to The Manhattan Savings Bank by assignment dated 10/28/65, recorded 11/3/65, in Liber 6428 Mp. 414.

4. Mortgage made by Harry Gindoff to The Manhattan Savings Bank dated 10/28/65, recorded 11/3/65 in Liber 6428 Mp. 419 to secure the sum of \$431,492.00 and interest.

Consolidation and Extension Agreement made between Harry Gindoff and The Manhattan Savings Bank dated 10/28/65 recorded 11/3/65 in Liber 6428 Mp. 423. Consolidates mortgages 1 thru 4 to form a single lien of \$525,000.00.

ASSIGNMENT OF MORTGAGE

Mortgage(s) 1 thru 4 as consolidated was/were assigned by The Manhattan Savings Bank to The Globe Wernicke Realty Company by assignment dated 6/30/75, recorded 6/30/75, in Reel 344 Page 1469

Extension Agreement made between 361 Broadway Corp. and The Globe Wernicke Realty Company dated 11/1/75 recorded 11/5/75 in Reel 354 Page 1956. Extends mortgages 1 thru 4 as consolidated.

ASSIGNMENT OF MORTGAGE

Mortgage(s) 1 thru 4 as consolidated was/were assigned by The Globe Wernicke Realty Company to American Savings Bank, FSB by assignment dated 10/14/86, recorded 10/23/86, in Reel 1133 Page 1269.

5. Mortgage made by Gindoff Enterprises Incorporated to American Savings Bank, FSB dated 10/14/86, recorded 10/23/86 in Reel 1133 Page 1274 to secure the sum of \$3,109,075.34 and interest.

Consolidation, Modification and Extension Agreement made between Gindoff Enterprises Incorporated and American Savings Bank, FSB dated 10/14/86 recorded 10/23/86 in Reel 1133 Page 1292. Consolidates mortgages 1 thru 5 to form a single lien of \$3,350,000.00.

ASSIGNMENT OF MORTGAGE

Mortgage(s) 1 thru 5 as consolidated was/were assigned by American Savings Bank, FSB f/k/a American Savings Bank to City Federal Savings Bank by assignment dated 4/28/88, recorded 5/10/88, in Reel 1400 Page 361.

6. Mortgage made by Gindoff Enterprises incorporated to City Federal Savings Bank dated 5/3/88, recorded 5/10/88 in Reel 1400 Page 367 to secure the sum of \$7,186,901.72 and interest.

Consolidated, Modification and Spreader Agreement made between Gindoff Enterprises Incorporated and City Federal Savings Bank dated 5/3/88 recorded 5/10/88 in Reel 1400 Page 435. Consolidates mortgages 1 thru 6 to form a single lien of \$10,510,000.00 and same are modified and spread to cover those parts of premises not already covered.

ASSIGNMENT OF MORTGAGE

Mortgage(s) 1 thru 6 as consolidated was/were assigned by City Savings Bank, FSB in conservatorship, resolution trust corporation as conservator to Barclays Bank PLC and The Dai-Ichi Kangyo Bank, Ltd. by assignment dated 9/18/90, recorded 9/19/90, in Reel 1729 Page 1645.

7. Subordinate Loan Mortgage and Security Agreement made by Gindoff Enterprises Incorporated to City Federal Savings Bank dated 5/3/88, recorded 5/10/88 in Reel 1400 Page 401 to secure the sum of \$1,490,000.00 and interest.

ASSIGNMENT OF MORTGAGE

Mortgage(s) 7 was/were assigned by City Savings Bank, FSB in conservatorship, resolution trust corporation as conservator to Barclays Bank PLC (Tokyo Branch) and The Dai-Ichi Kangyo Bank Ltd. by assignment dated 9/18/90, recorded 9/19/90, in Reel 1729 Page 1650.

8. Mortgage made by Ise Hiyoko Inc. to Barclays Bank PLC (Tokyo Branch) and The Dai-Ichi Kangyo Bank dated 9/18/90, recorded 9/19/90 in Reel 1729 Page 1655 to secure the sum of \$2,639,878.66 and interest.

Consolidation, Modification and Extension Agreement made between Ise Hiyoko, Inc. and Barclays Bank PLC (Tokyo Branch) and The Dai-Ichi Kangyo Bank dated 9/18/90 recorded 9/19/90 in Reel 1729 Page 1661. Consolidates mortgages 1 thru 8 to form a single lien of \$14,000,000.00 and modifies and extends same.

COLLATERAL ASSIGNMENT OF MORTGAGE

Mortgage(s) 1 thru 8 as consolidated was/were assigned by Barclays Bank PLC (Tokyo Branch) and The Dai-Ichi Kangyo Bank, Ltd. to Orient Corporation by assignment dated 9/18/90, recorded 9/19/90, in Reel 1729 Page 1702.

ASSIGNMENT OF MORTGAGE

Mortgages 1 thru 8 were assigned by Orient Corporation to Barclays Bank, PLC (Tokyo Branch) and The Dai-Ichi Kangyo Bank, Ltd. by assignment dated 8/25/95, recorded 8/31/95, in Reel 2238 Page 2018.

ASSIGNMENT OF MORTGAGE

Mortgages 1 thru 8 were assigned by Barclays Bank, PLC (Tokyo Branch) and The Dai-Ichi Kangyo Bank, Ltd. to Greyrock Capital Group Inc. by assignment dated 8/25/95, recorded 8/31/95, in Reel 2238 Page 2034.

9. Mortgage made by Ise Hiyoko Inc. to Orient Corporation dated 1/20/93, recorded 2/1/93 in Reel 1942 Page 458 to secure the sum of \$2,000,000.00 and interest.

Mortgage Modification Agreement made by and between Orient Corporation and Ise Hiyoko, Inc. by agreement dated 8/25/95, recorded 8/31/95 in Reel 2238 Page 1987.

ASSIGNMENT OF MORTGAGE

Mortgage 9 was assigned by Orient Corporation to Greyrock Capital Group, Inc. by assignment dated 8/25/95, recorded 8/31/95 in Reel 2238 Page 2008.

10. Mortgage made by Ise Hiyoko Inc. to Orient Corporation dated 1/20/93, recorded 2/1/93 in Reel 1942 Page 498 to secure the sum of \$5,000,000.00 and interest.

Mortgage Modification Agreement made by and between Orient Corporation and Ise Hiyoko, Inc. by agreement dated 8/25/95, recorded 8/31/95 in Reel 2238 Page 1994.

ASSIGNMENT OF MORTGAGE

Mortgage 10 was assigned by Orient Corporation to Greyrock Capital Group, Inc. by assignment dated 8/25/95, recorded 8/31/95 in Reel 2238 Page 2013.

11. Subordinate Mortgage made by Ise Hiyoko, Inc. to Orient Corporation dated 4/6/94, recorded 4/7/94 in Reel 2077 Page 1669 as re-indexed in Reel 2229 Page 503 on 7/31/95 to secure the sum of \$7,000,000.00 and interest.

Modification Agreement made by and between Orient Corporation and Ise Hiyoko, Inc. by agreement dated 8/25/95, recorded 8/31/95 in Reel 2238 Page 2001.

ASSIGNMENT OF MORTGAGE

Mortgage 11 was assigned by Orient Corporation to Greyrock Capital Group, Inc. by assignment dated 8/25/95, recorded 8/31/95 in Reel 2243 Page 915.

Consolidation Agreement made by and between Greyrock Capital Group, Inc. and Ise Hiyoko, Inc. by agreement dated 8/25/95, recorded 8/31/95 in Reel 2238 Page 2055.

Consolidates mortgages 1 thru 11 to form a single lien of \$28,000,000.00.

Modification and Splitter Agreement made by and between Greyrock Capital Group, Inc. and Ise Hiyoko, Inc. by agreement dated 8/25/95, recorded 8/31/95 in Reel 2238 Page 2066. Splits mortgages 1 thru 11 as consolidated into two liens:

- a. 1st mortgage (Substitute Mortgage A) in the amount of \$20,000,000.00.
- b. 2nd mortgage (Substitute Mortgage B) in the amount of \$8,000,000.00.

- 12. Superior Mortgage - Substitute A made by Ise Hiyoko, Inc. to Greyrock Capital Group Inc. dated 8/25/95, recorded 8/31/95 in Reel 2238 Page 2080 to secure the sum of \$20,000,000.00 and interest.

ASSIGNMENT OF MORTGAGE

Superior Mortgage - Substitute A is being assigned to Credit Suisse First Boston Mortgage Capital LLC by that certain Assignment of Mortgage from NationsCredit Commercial Corporation, successor-in-interest to Greyrock Capital Group, dated as of 8/4/99 and being recorded in the Register's Office simultaneously herewith.

- 13. Subordinate Mortgage - Substitute B (the "Mortgage") made by Ise Hiyoko, Inc. to Greyrock Capital Group Inc. dated 8/25/95, recorded 8/31/95 in Reel 2238 Page 2147 to secure the sum of \$8,000,000.00 and interest.

ASSIGNMENT OF MORTGAGE

The Mortgage was assigned by Greyrock Capital Group Inc. to Harayokey, Inc. by assignment dated 8/25/95, recorded 8/31/95 in Reel 2238 Page 2152.

Subordination Agreement made by and between Greyrock Capital Group Inc. to Harayokey, Inc. by agreement dated 8/25/95, recorded 8/31/95 in Reel 2238 Page 2135. Subordinates mortgage in Reel 2238 Page 2147 to mortgage in Reel 2238 Page 2080.

ASSIGNMENT OF MORTGAGE

The Mortgage is being assigned to Credit Suisse First Boston Mortgage Capital LLC by that certain Assignment of Mortgage made by Harayokey, Inc., dated as of 8/4/99 and being recorded in the Register's Office simultaneously herewith.

- 14. MORTGAGE made by ISE 555 Broadway, LLC to Credit Suisse First Boston Mortgage Capital LLC dated as of 8/4/99 and to be recorded to secure the sum of \$9,731,893.37 and interest.

AMENDED, RESTATED AND CONSOLIDATED MORTGAGE, ASSIGNMENT OF LEASES AND RENTS AND SECURITY AGREEMENT made between ISE 555 Broadway, LLC and Credit Suisse First Boston Mortgage Capital LLC dated as of 8/4/99 and to be recorded.

Consolidates Mortgages 1 through 14 above to form a single first lien of \$34,000,000.00. and interest.

SCHEDULE B

Mortgaged Property

ALL that certain plot, piece or parcel of land, situate, lying and being in the Borough of Manhattan, City, County and State of New York bounded and described as follows:

BEGINNING at a point on the westerly side of Broadway, distant 224 feet 8 inches northerly from the corner formed by the intersection of the westerly side of Broadway and the northerly side of Spring Street;

RUNNING THENCE westerly along the southerly face of the southerly wall of the building on the premises herein described, 200 feet 3 inches to the easterly side of Mercer Street at a point therein distant 225 feet 1/4 of an inch northerly from the northerly side of Spring Street, as measured along said easterly line of Mercer Street;

THENCE RUNNING northerly along the easterly side of Mercer Street, 99 feet 5 inches;

THENCE easterly on a line which forms an angle on its northerly side with easterly side of Mercer Street of 90 degrees 32 minutes 10 seconds 50 feet to an angle point.

THENCE easterly on a line drawn parallel with the southerly side of Prince Street and partly along the northerly face of the northerly wall of the building on the premises herein described, 150 feet 3 inches to the westerly side of Broadway; and

THENCE southerly along the westerly side of Broadway, 99 feet 1 inch to the point or place of BEGINNING.

Together with all improvements now or hereafter existing thereon.

EXHIBIT H

EXISTING ENCUMBRANCES, COVENANTS, AGREEMENTS AND EASEMENTS

1. The Premises (or part of the Premises) have been designated as a Landmark, Landmark Site or Historic District, by an instrument dated 8/16/73 and recorded on 8/17/73 in Reel 288 Page 1059 and are subject to the restricted use as provided in the New York City Administrative Code, Chapter 3, Landmarks Preservation and Historic Districts, Section 25-30 et. seq.

2. Recital as to underground tunnel contained in deed made by The Beekman Estate to Rouss Building, Inc., dated February 19, 1938, recorded March 30, 1938 in Liber 3984 cp 62.

3. Violations:

- (a) Sidewalk Violation filed May 11, 1990 (File # 53161).
- (b) Sidewalk Violation filed December 5, 1991 (File # 60692).
- (c) ECB violation 38055606J issued 7/31/96.

4. Amended and Restated Easements Agreement dated as of August 1, 1999, among Landlord, Tenant, and Carol Blechman, Donald Blechman, Howard Blechman, Noma Joan Blechman, Stephen Blechman, Norma Gastwirth (formerly known as Norma Blechman) and Nauma Blechman Levin (formerly known as Nauma Blechman) (collectively, the "557 Landlord"), as such agreement may be amended and/or restated from time to time, which Easements Agreement amends and restates in its entirety the easements agreement dated as of July 10, 1998, recorded on August 26, 1998, in Reel 2689, Page 00792.

5. A survey of the Premises made by Montrose Surveying Co., Inc. dated June 18, 1999 shows the following:

- a. The northerly wall of the building on the premises adjoining on the south leans up to .08 foot, over the Premises.
- b. The chimney of the building on the premises adjoining on the south is anchored to the wall of the Building and carried to the roof thereof.
- c. The brick piers, above first story of Building encroach .08 foot on Mercer Street.
- d. The northerly wall of the Building leans .5 foot, more or less, over premises adjoining on the north.

- e. Roof of Building projects .33 foot over the north adjoining premises.
- f. Roof trim of Building projects .6 foot over premises on the north, and .37 foot over premises on the south.
- g. Encroachments and projections on and over Broadway by stone bases, trim, grade areas, and stone and iron piers.
- h. Encroachments and projections on and over Mercer Street by steps, cellar doors, trim, marquee and vents.
- i. Building in the course of construction on the premises adjoining on the north, foundation only completed. Said construction subject to easement referred to in item 4 above.
- j. Mortgages set forth on Schedule 1 of this Exhibit H.

Mortgages

1. Mortgage made by Rouss Building, Inc. to The Beekman Estate dated 3/29/38, recorded 3/30/38 in Liber 4325 Mp. 138 to secure the sum of \$50,000.00 and interest.

ASSIGNMENT OF MORTGAGE

Mortgage(s) 1 was/were assigned by The Beekman Estate to Union Square Savings Bank by assignment dated 12/29/50, recorded 1/2/51, in Liber 5208 Mp. 112.

2. Mortgage made by Rouss Building Inc. to S. Blechman and Sons Inc. dated 11/1/38, recorded 11/29/38 in Liber 4347 Mp. 471 to secure the sum of \$30,000.00 and interest.

ASSIGNMENT OF MORTGAGE

Mortgage(s) 2 was/were assigned by S. Blechman and Sons Inc. to Simon Blechman Holdings Inc. by assignment dated 6/23/47, recorded 6/25/47, in Liber 4919 Mp. 13.

ASSIGNMENT OF MORTGAGE

Mortgage(s) 2 was/were assigned by Simon Blechman Holdings Inc. to William Blechman, Nathan S. Blechman, Raphael Blechman and Oscar Blechman by assignment dated 10/30/47, recorded 11/3/47, in Liber 4949 Mp. 454.

ASSIGNMENT OF MORTGAGE

Mortgage(s) 2 was/were assigned by William Blechman, Nathan S. Blechman, Raphael Blechman, Oscar Blechman and Simon Blechman Holdings Inc. to Union Square Savings Bank by assignment dated 12/28/50, recorded 1/2/51, in Liber 5208 Mp. 108.

3. Mortgage made by Rouss Building Inc. to The RFC Mortgage Company dated 4/13/39, recorded 4/18/39 in Liber 43644 Mp. 179 to secure the sum of \$160,000.00 and interest.

ASSIGNMENT OF MORTGAGE

Mortgage(s) 3 was/were assigned by The RFC Mortgage Company to Union Square Savings Bank by assignment dated 6/21/44, recorded 6/23/44, in Liber 4685 Mp. 548

Agreement Extending Mortgage Agreement made between Rouss Building Inc. and Union Square Savings Bank dated 12/29/50 recorded 1/16/51 in Liber 5211 Mp. 513. Consolidated mortgages 1 thru 3 to form a single lien of \$164,578.00.

ASSIGNMENT OF MORTGAGE

Mortgage(s) 1 thru 3 as consolidated was/were assigned by Union Square Savings Bank to Gindoff Export Corporation by assignment dated 3/7/60, recorded 3/7/60, in Liber 5881 Mp. 415.

ASSIGNMENT OF MORTGAGE

Mortgage(s) 1 thru 3 as consolidated was/were assigned by Gindoff Export Corporation to The Manhattan Savings Bank by assignment dated 10/28/65, recorded 11/3/65, in Liber 6428 Mp. 414.

4. Mortgage made by Harry Gindoff to The Manhattan Savings Bank dated 10/28/65, recorded 11/3/65 in Liber 6428 Mp. 419 to secure the sum of \$431,492.00 and interest.

Consolidation and Extension Agreement made between Harry Gindoff and The Manhattan Savings Bank dated 10/28/65 recorded 11/3/65 in Liber 6428 Mp. 423. Consolidates mortgages 1 thru 4 to form a single lien of \$525,000.00.

ASSIGNMENT OF MORTGAGE

Mortgage(s) 1 thru 4 as consolidated was/were assigned by The Manhattan Savings Bank to The Globe Wernicke Realty Company by assignment dated 6/30/75, recorded 6/30/75, in Reel 344 Page 1469

Extension Agreement made between 361 Broadway Corp. and The Globe Wernicke Realty Company dated 11/1/75 recorded 11/5/75 in Reel 354 Page 1956. Extends mortgages 1 thru 4 as consolidated.

ASSIGNMENT OF MORTGAGE

Mortgage(s) 1 thru 4 as consolidated was/were assigned by The Globe Wernicke Realty Company to American Savings Bank, FSB by assignment dated 10/14/86, recorded 10/23/86, in Reel 1133 Page 1269.

5. Mortgage made by Gindoff Enterprises Incorporated to American Savings Bank, FSB dated 10/14/86, recorded 10/23/86 in Reel 1133 Page 1274 to secure the sum of \$3,109,075.34 and interest.

Consolidation, Modification and Extension Agreement made between Gindoff Enterprises Incorporated and American Savings Bank, FSB dated 10/14/86 recorded 10/23/86 in Reel 1133 Page 1292. Consolidates mortgages 1 thru 5 to form a single lien of \$3,350,000.00.

ASSIGNMENT OF MORTGAGE

Mortgage(s) 1 thru 5 as consolidated was/were assigned by American Savings Bank, FSB f/k/a American Savings Bank to City Federal Savings Bank by assignment dated 4/28/88, recorded 5/10/88, in Reel 1400 Page 361.

6. Mortgage made by Gindoff Enterprises incorporated to City Federal Savings Bank dated 5/3/88, recorded 5/10/88 in Reel 1400 Page 367 to secure the sum of \$7,186,901.72 and interest.

Consolidated, Modification and Spreader Agreement made between Gindoff Enterprises Incorporated and City Federal Savings Bank dated 5/3/88 recorded 5/10/88 in Reel 1400 Page 435. Consolidates mortgages 1 thru 6 to form a single lien of \$10,510,000.00 and same are modified and spread to cover those parts of premises not already covered.

ASSIGNMENT OF MORTGAGE

Mortgage(s) 1 thru 6 as consolidated was/were assigned by City Savings Bank, FSB in conservatorship, resolution trust corporation as conservator to Barclays Bank PLC and The Dai-Ichi Kangyo Bank, Ltd. by assignment dated 9/18/90, recorded 9/19/90, in Reel 1729 Page 1645.

7. Subordinate Loan Mortgage and Security Agreement made by Gindoff Enterprises Incorporated to City Federal Savings Bank dated 5/3/88, recorded 5/10/88 in Reel 1400 Page 401 to secure the sum of \$1,490,000.00 and interest.

ASSIGNMENT OF MORTGAGE

Mortgage(s) 7 was/were assigned by City Savings Bank, FSB in conservatorship, resolution trust corporation as conservator to Barclays Bank PLC (Tokyo Branch) and The Dai-Ichi Kangyo Bank Ltd. by assignment dated 9/18/90, recorded 9/19/90, in Reel 1729 Page 1650.

8. Mortgage made by Ise Hiyoko Inc. to Barclays Bank PLC (Tokyo Branch) and The Dai-Ichi Kangyo Bank dated 9/18/90, recorded 9/19/90 in Reel 1729 Page 1655 to secure the sum of \$2,639,878.66 and interest.

Consolidation, Modification and Extension Agreement made between Ise Hiyoko, Inc. and Barclays Bank PLC (Tokyo Branch) and The Dai-Ichi Kangyo Bank dated 9/18/90 recorded 9/19/90 in Reel 1729 Page 1661. Consolidates mortgages 1 thru 8 to form a single lien of \$14,000,000.00 and modifies and extends same.

COLLATERAL ASSIGNMENT OF MORTGAGE

Mortgage(s) 1 thru 8 as consolidated was/were assigned by Barclays Bank PLC (Tokyo Branch) and The Dai-Ichi Kangyo Bank, Ltd. to Orient Corporation by assignment dated 9/18/90, recorded 9/19/90, in Reel 1729 Page 1702.

ASSIGNMENT OF MORTGAGE

Mortgages 1 thru 8 were assigned by Orient Corporation to Barclays Bank, PLC (Tokyo Branch) and The Dai-Ichi Kangyo Bank, Ltd. by assignment dated 8/25/95, recorded 8/31/95, in Reel 2238 Page 2018.

ASSIGNMENT OF MORTGAGE

Mortgages 1 thru 8 were assigned by Barclays Bank, PLC (Tokyo Branch) and The Dai-Ichi Kangyo Bank, Ltd. to Greyrock Capital Group Inc. by assignment dated 8/25/95, recorded 8/31/95, in Reel 2238 Page 2034.

9. Mortgage made by Ise Hiyoko Inc. to Orient Corporation dated 1/20/93, recorded 2/1/93 in Reel 1942 Page 458 to secure the sum of \$2,000,000.00 and interest.

Mortgage Modification Agreement made by and between Orient Corporation and Ise Hiyoko, Inc. by agreement dated 8/25/95, recorded 8/31/95 in Reel 2238 Page 1987.

ASSIGNMENT OF MORTGAGE

Mortgage 9 was assigned by Orient Corporation to Greyrock Capital Group, Inc. by assignment dated 8/25/95, recorded 8/31/95 in Reel 2238 Page 2008.

10. Mortgage made by Ise Hiyoko Inc. to Orient Corporation dated 1/20/93, recorded 2/1/93 in Reel 1942 Page 498 to secure the sum of \$5,000,000.00 and interest.

Mortgage Modification Agreement made by and between Orient Corporation and Ise Hiyoko, Inc. by agreement dated 8/25/95, recorded 8/31/95 in Reel 2238 Page 1994.

ASSIGNMENT OF MORTGAGE

Mortgage 10 was assigned by Orient Corporation to Greyrock Capital Group, Inc. by assignment dated 8/25/95, recorded 8/31/95 in Reel 2238 Page 2013.

11. Subordinate Mortgage made by Ise Hiyoko, Inc. to Orient Corporation dated 4/6/94, recorded 4/7/94 in Reel 2077 Page 1669 as re-indexed in Reel 2229 Page 503 on 7/31/95 to secure the sum of \$7,000,000.00 and interest.

Modification Agreement made by and between Orient Corporation and Ise Hiyoko, Inc. by agreement dated 8/25/95, recorded 8/31/95 in Reel 2238 Page 2001.

ASSIGNMENT OF MORTGAGE

Mortgage 11 was assigned by Orient Corporation to Greyrock Capital Group, Inc. by assignment dated 8/25/95, recorded 8/31/95 in Reel 2243 Page 915.

Consolidation Agreement made by and between Greyrock Capital Group, Inc. and Ise Hiyoko, Inc. by agreement dated 8/25/95, recorded 8/31/95 in Reel 2238 Page 2055.

Consolidates mortgages 1 thru 11 to form a single lien of \$28,000,000.00.

Modification and Splitter Agreement made by and between Greyrock Capital Group, Inc. and Ise Hiyoko, Inc. by agreement dated 8/25/95, recorded 8/31/95 in Reel 2238 Page 2066. Splits mortgages 1 thru 11 as consolidated into two liens:

- a. 1st mortgage (Substitute Mortgage A) in the amount of \$20,000,000.00.
- b. 2nd mortgage (Substitute Mortgage B) in the amount of \$8,000,000.00.

12. Superior Mortgage - Substitute A made by Ise Hiyoko, Inc. to Greyrock Capital Group Inc. dated 8/25/95, recorded 8/31/95 in Reel 2238 Page 2080 to secure the sum of \$20,000,000.00 and interest.

ASSIGNMENT OF MORTGAGE

Superior Mortgage - Substitute A is being assigned to Credit Suisse First Boston Mortgage Capital LLC by that certain Assignment of Mortgage from NationsCredit Commercial Corporation, successor-in-interest to Greyrock Capital Group, dated as of 8/4/99 and being recorded in the Register's Office simultaneously herewith.

13. Subordinate Mortgage - Substitute B (the "Mortgage") made by Ise Hiyoko, Inc. to Greyrock Capital Group Inc. dated 8/25/95, recorded 8/31/95 in Reel 2238 Page 2147 to secure the sum of \$8,000,000.00 and interest.

ASSIGNMENT OF MORTGAGE

The Mortgage was assigned by Greyrock Capital Group Inc. to Harayokey, Inc. by assignment dated 8/25/95, recorded 8/31/95 in Reel 2238 Page 2152.

Subordination Agreement made by and between Greyrock Capital Group Inc. to Harayokey, Inc. by agreement dated 8/25/95, recorded 8/31/95 in Reel 2238 Page 2135. Subordinates mortgage in Reel 2238 Page 2147 to mortgage in Reel 2238 Page 2080.

ASSIGNMENT OF MORTGAGE

The Mortgage is being assigned to Credit Suisse First Boston Mortgage Capital LLC by that certain Assignment of Mortgage made by Harayokey, Inc., dated as of 8/4/99 and being recorded in the Register's Office simultaneously herewith.

14. MORTGAGE made by ISE 555 Broadway, LLC to Credit Suisse First Boston Mortgage Capital LLC dated as of 8/4/99 and to be recorded to secure the sum of \$9,731,893.37 and interest.

AMENDED, RESTATED AND CONSOLIDATED MORTGAGE, ASSIGNMENT OF LEASES AND RENTS AND SECURITY AGREEMENT made between ISE 555 Broadway, LLC and Credit Suisse First Boston Mortgage Capital LLC dated as of 8/4/99 and to be recorded.

Consolidates Mortgages 1 through 14 above to form a single first lien of \$34,000,000.00. and interest.

EXHIBIT I

TENANT'S LETTER OF CREDIT

[ISSUING BANK]

[Date]

Beneficiary:

[Landlord or Landlord's Mortgagee
(if required by Landlord's Mortgagee)]

Ref: Irrevocable Letter of Credit No. _____

Gentlemen:

By order of our client, Scholastic Inc., having an office at 555 Broadway, New York, New York, we hereby open in your favor our irrevocable standby Letter of Credit No. _____ for the aggregate sum of One Million United States Dollars, (U.S. \$1,000,000.00) effective immediately and expiring at our [address of Bank] New York Office on _____ or any automatically extended date.

Funds under this Letter of Credit are available to you against presentation of your sight draft(s) drawn on us marked "drawn under Irrevocable Letter of Credit No. _____ date [date of Letter of Credit]", and accompanied by the following:

Beneficiary's signed statement that Scholastic Inc. has failed to comply with the terms and conditions of a contract described as Amended and Restated Lease between ISE 555 Broadway, LLC, as Landlord, and Scholastic Inc. as Tenant, dated August 1, 1999 and that the beneficiary is entitled to draw on this Letter of Credit.

It is a condition of this Letter of Credit that it shall be deemed automatically extended without amendment for one year from the present or any future expiration date hereof, unless thirty (30) days prior to any such date we shall notify you by registered mail that we elect not to consider this Letter of Credit renewed for any such additional period. Upon receipt by you of such notice,

you may draw hereunder by means of your draft on us at sight, accompanied by the original Letter of Credit.

This Letter of Credit is transferrable in whole but not in part by the beneficiary upon notice to the undersigned, together with the payment of a transfer charge of one-quarter of one percent of the amount of this Letter of Credit. Requests for transfer will be in the form of Annex A attached hereto, duly completed by an officer of your company and accompanied by the original of this Letter of Credit.

If we receive your sight draft as mentioned above, in accordance with the terms and conditions of this credit, here at our [address], New York Office we will promptly honor the same.

This Letter of Credit is subject to the Uniform Customs and Practice for Documentary Credits (1993 Revision) International Chamber of Commerce Brochure No. 500, shall be deemed to be a contract made under, and as to matters not governed by the UCP, shall be governed by and construed in accordance with the laws of the State of New York and applicable U.S. Federal Law.

[Name of Bank]

By: _____
Authorized Signature
Title:

[ANNEX A TO BE ADDED BY ISSUING BANK, IF REQUIRED]

SCHEDULE 1

SUBLEASES

1. Indenture of Lease dated as of March 17, 1998, between Scholastic Inc. and DFS Group, L.P., as amended by Commencement Date Agreement dated May 20, 1998, and as assigned by DFS Group, L.P. to Sephora USA, LLC, for a portion of ground floor space in the Building.
2. Sublease dated as of April 4, 1999, between Scholastic Inc. and Federal Express Corporation, for a portion of ground floor space in the Building.
3. Sublease dated as of August 1, 1999, between Scholastic Inc. and ISE New York, LLC, for a portion of space on the first floor below grade in the Building.

SCHEDULE 2
ANNUAL RENTAL

| Period | Annual Rental |
|------------------|---------------|
| 8/1/99 - 7/31/02 | \$4,200,000 |
| 8/1/02 - 7/31/07 | \$4,620,000 |
| 8/1/07 - 7/31/12 | \$5,313,000 |
| 8/1/12 - 7/31/16 | \$6,163,080 |
| 8/1/16 - 7/31/19 | \$7,149,173 |
| 8/1/19 - 7/31/24 | \$8,042,820 |
| 8/1/24 - 7/31/29 | \$9,048,172 |

AMENDED AND RESTATED

S U B L E A S E

between

KALODOP PARK CORP.

As Sublandlord

and

SCHOLASTIC INC.

As Subtenant

Dated: as of October 9, 1996

Demised Premises: 557 Broadway, New York, New York

Amended and Restated Sublease

AMENDED AND RESTATED AGREEMENT OF SUBLEASE (the "Sublease"), dated as of the 9th day of October, 1996, between KALODOP PARK CORP., a New York corporation having an office at c/o Wilfred Garage, Inc., 200 East 19th Street, New York, New York 10003 (hereinafter sometimes called "Sublandlord"), and SCHOLASTIC INC., a New York corporation having an office at 555 Broadway, New York, New York 10012 (hereinafter called "Subtenant").

W I T N E S S E T H :

WHEREAS, Sublandlord is the tenant under that certain lease dated as of September 23, 1992 (the "Existing Overlease") by and between Carol W. Blechman, as Executrix under the Will of Arthur Blechman, Donald Blechman, Howard Blechman, Noma Joan Blechman, Stephen Blechman, Norma Blechman Gastwirth and Nauma Blechman Levin (d/b/a Blechman Brothers; collectively "Existing Overlandlord"), as landlord, and Sublandlord, as tenant;

WHEREAS, Sublandlord and Subtenant are parties to a certain sublease of even date herewith (the "Existing Sublease"), pursuant to which Sublandlord has subleased to Subtenant the premises covered by the Existing Overlease;

WHEREAS, Sublandlord is the tenant under that certain Amended and Restated Agreement of Lease dated as of October 9, 1996 (the "Overlease") by and between Carol W. Blechman, Donald Blechman, Howard Blechman, Noma Joan Blechman, Stephen Blechman, Norma Blechman Gastwirth and Nauma Blechman Levin (collectively "Overlandlord"), as landlord, and Sublandlord, as tenant;

WHEREAS, pursuant to the terms of that certain agreement dated as of April 11, 1996 (the "Agreement"), by and between Sublandlord and Subtenant, Sublandlord and Subtenant agreed to enter into a sublease of the premises covered by the Overlease upon satisfaction of certain conditions set forth in the Agreement;

WHEREAS, all of such conditions have been satisfied and/or the same have been waived;

WHEREAS, the parties hereto desire hereby to enter into an amended and restated sublease of the premises covered by the Overlease; and

WHEREAS, the terms of the Overlease and this Sublease shall not become effective until the Vacate Date (as hereinafter defined).

ARTICLE 1
PREMISES--TERM OF SUBLEASE; CERTAIN DEFINITIONS

Section 1.01. Sublandlord hereby subleases to Subtenant, and Subtenant hereby hires, the Premises, including the Land, as more particularly described in Exhibit "A" annexed hereto and made a part hereof, and the Building (as defined in the Overlease).

SUBJECT, however, to the following (collectively, the "Permitted Encumbrances"):

(a) The state of facts shown on a survey made by Lovell-Belcher dated September 27, 1954 and redated by visual examination made by Lovell-Belcher on September 24, 1992 and any other state of facts that an accurate survey of the Premises may show;

(b) Real estate taxes affecting the Premises not yet due and payable or a lien on the Premises;

(c) All utility company rights, easements and franchises to maintain and operate lines, poles, wires, cables, pipes, distribution boxes and other fixtures and facilities in, over, under and upon the Premises;

(d) Covenants, restrictions, easements, reservations and agreements of record;

(e) Zoning ordinances and restrictions and amendments now or hereafter in force or effect;

(f) The rights, if any, of any governmental authority having or asserting jurisdiction thereof, with respect to any vaults under the sidewalks beyond the building line and to consents by Sublandlord or any present or former owner of the Premises for the erection of any structure or structures on, under or above any streets or roads in front of or adjoining the Land;

(g) All notes or notices of any violation of law or municipal ordinances, orders or requirements noted in or issued prior to the date hereof or hereafter noted in or issued by the Department of Buildings, Fire, Labor, Health, Air Resources or any other federal, state or municipal departments having or asserting jurisdiction against the Premises;

(h) Any other matter or thing affecting the Premises which Subtenant agrees to take subject to or waives pursuant to the terms of this Sublease; and

(i) All of the terms, covenants, conditions and

limitations of the Overlease.

Notwithstanding anything to the contrary contained herein, any right, easement or franchise described in clause (c) above or any covenant, restriction, easement, reservation or agreement of record described in clause (d) above, in each case which have been created, consented to or incurred by Sublandlord after the date of this Sublease shall not be deemed to be a Permitted Encumbrance and the provisions of this Sublease shall control as to the disposition thereof.

TO HAVE AND TO HOLD the Premises unto Subtenant, its successors and assigns, for a term (the "Term") commencing on the Vacate Date, and expiring at 12:00 p.m. on March 31, 2013, (the "Expiration Date") unless this Sublease shall sooner terminate as hereinafter provided. If the Vacate Date shall not have occurred on or before the second (2nd) anniversary of the date hereof, Overlandlord shall have the right to terminate the Overlease upon ten (10) days prior notice to Sublandlord; provided, however, that if the Vacate Date shall occur within such ten (10) days period, Overlandlord's termination notice to Sublandlord shall be deemed to be withdrawn and the Overlease shall continue in full force and effect. If the Vacate Date shall occur prior to the date that the Overlease shall be terminated, in such case, the terms of the Existing Overlease shall be superseded in their entirety and replaced by the Overlease, which fully restates and supersedes, as of the Vacate Date, all of the terms, covenants and conditions of the Existing Overlease. If the Overlease shall have been terminated by Overlandlord because the Vacate Date shall not have occurred on or before the second (2nd) anniversary of the date hereof, in such case, this Sublease and the Existing Sublease shall be terminated as of the termination of the Overlease. In addition, if the Vacate Date shall not have occurred on or before February 1, 1998, Subtenant shall have the right to terminate this Sublease and the Existing Sublease upon ten (10) days prior notice to Sublandlord; provided, however, that if the Vacate Date shall occur within such ten (10) days period, Subtenant's termination notice to Sublandlord shall be deemed to be withdrawn and this Sublease shall continue in full force and effect. If the Vacate Date shall occur prior to the date that this Sublease shall be terminated, in such case, the terms of the Existing Sublease shall be superseded in their entirety and replaced by this Sublease, which fully restates and supersedes, as of the Vacate Date, all of the terms, covenants and conditions of the Existing Sublease.

Section 1.02. For purposes of this Sublease, the following capitalized terms set forth below shall have the following meanings: (i) "Discount Rate" shall mean the rate of seven and three-fourths (7.75%) percent per annum, compounded monthly, (ii) "Effective Date" shall mean December 1, 1996, (iii)

"Sublease Rent" shall mean the Basic Rent and Monthly Deferred Rent that shall be payable hereunder, and (iv) "Vacate Date" shall mean the later of (1) the Effective Date and (2) the date that Sublandlord shall tender delivery to Subtenant of vacant possession of the Premises, free of all vehicles and all other tenants or occupants.

ARTICLE 2

BASIC RENT

Section 2.01. (a) Subtenant shall pay to Sublandlord as basic rent (the "Basic Rent"), a rental as follows:

(i) From and after the Vacate Date through and including the date immediately preceding the first (1st) anniversary of the Vacate Date, the amount of One Hundred Fifty Thousand and 00/100 Dollars (\$150,000.00) per annum, payable in equal monthly installments of Twelve Thousand Five Hundred and 00/100 Dollars (\$12,500.00); provided, that, in light of the fact that Subtenant delivered to Sublandlord the First Additional New Lease Payment (as defined in the Agreement) in the amount of Fifty Thousand and 00/100 Dollars (\$50,000.00) and the Second Additional New Lease Payment (as defined in the Agreement) in the amount of Thirty-Five Thousand and 00/100 Dollars (\$35,000.00) in accordance with the terms of Subsection 13(a)(ii) of the Agreement, Subtenant shall be entitled to a credit in the amount of Eighty-Five Thousand and 00/100 Dollars (\$85,000.00) against the first installment(s) of Sublease Rent that shall be payable by Subtenant to Sublandlord under this Subsection 2.01(a)(i);

(ii) From and after the first (1st) anniversary of the Vacate Date through and including the date immediately preceding the third (3rd) anniversary of the Vacate Date, the amount of Four Hundred Thousand and 00/100 Dollars (\$400,000.00) per annum, payable in equal monthly installments of Thirty-Three Thousand Three Hundred Thirty-Three and 33/100 Dollars (\$33,333.33);

(iii) From and after the third (3rd) anniversary of the Vacate Date through and including the date immediately preceding the sixth (6th) anniversary of the Vacate Date, the amount of Four Hundred Thirty-Two Thousand and 00/100 Dollars (\$432,000.00) per annum, payable in equal monthly installments of Thirty-Six Thousand and 00/100 Dollars (\$36,000.00);

(iv) From and after the sixth (6th) anniversary of the Vacate Date through and including the date immediately preceding the ninth (9th) anniversary of the Vacate Date, the amount of Four Hundred Sixty-Six Thousand Five Hundred Sixty and 00/100 Dollars (\$466,560.00) per annum, payable in equal monthly installments of Thirty-Eight Thousand Eight Hundred Eighty and 00/100 Dollars (\$38,880.00);

(v) From and after the ninth (9th) anniversary of the Vacate Date through and including the date immediately preceding the twelfth (12th) anniversary of the Vacate Date, the amount of Five Hundred Three Thousand Eight Hundred Eighty-Four and 80/100 Dollars (\$503,884.80) per annum, payable in equal monthly installments of Forty-One Thousand Nine Hundred Ninety and 40/100 Dollars (\$41,990.40);

(vi) From and after the twelfth (12th) anniversary of the Vacate Date through and including the earlier to occur of (1) the date immediately preceding the fifteenth (15th) anniversary of the Vacate Date and (2) the Expiration Date, the amount of Five Hundred Forty-Four Thousand One Hundred Ninety-Five and 58/100 Dollars (\$544,195.58) per annum, payable in equal monthly installments of Forty-Five Thousand Three Hundred Forty-Nine and 63/100 Dollars (\$45,349.63); and

(vii) If the Expiration Date of this Sublease shall occur after the fifteenth (15th) anniversary of the Vacate Date, from and after the fifteenth (15th) anniversary of the Vacate Date through and including the Expiration Date, the amount of Five Hundred Eighty-Seven Thousand Seven Hundred Thirty-One and 23/100 Dollars (\$587,731.23) per annum, payable in equal monthly installments of Forty-Eight Thousand Nine Hundred Seventy-Seven and 60/100 Dollars (\$48,977.60).

(b) Payments of the Basic Rent due under this Section 2.01 shall be made at Sublandlord's address set forth in Article 12 hereof, or such other address as Sublandlord may pursuant to Article 12 advise Subtenant, and such payments shall be payable in advance commencing on the Vacate Date and on the first day of each calendar month thereafter during the Term; provided, however, if Subtenant's obligation to pay Basic Rent shall commence on a date which shall be other than the first day of a calendar month, the same shall be appropriately prorated at the rental rate applicable during the first year of the Term, if the Expiration Date shall be other than the last day of a calendar month, the Basic Rent for such last calendar month shall be appropriately prorated at the rental rate applicable during the last year of the Term, if any payment hereunder

shall be payable on a date that shall not be a business day, such payment shall be payable on the next succeeding business day and with respect to any month in which the Basic Rent that is payable hereunder shall increase, the Basic Rent payable on first (1st) day of such calendar month shall be appropriately calculated to reflect the portion of the calendar month occurring prior to the increase in the Basic Rent and the portion of the calendar month occurring from and after the increase in the Basic Rent.

Section 2.02. (a) Notwithstanding the fact that the Term of this Sublease is less than twenty (20) years, it is the intention of Sublandlord and Subtenant that Sublandlord shall receive the same economic benefit during the Term of this Sublease as Sublandlord would otherwise have received if the Term of this Sublease were for twenty (20) years commencing on the Effective Date. Accordingly, at such time that the Vacate Date shall be determined, Sublandlord and Subtenant shall determine the net present value (calculated as of the Vacate Date) of the amount of Basic Rent that Sublandlord would have received under this Sublease after the Expiration Date (i) if the Expiration Date of this Sublease were instead the date immediately preceding the twentieth (20th) anniversary of the Effective Date and (ii) assuming that the Basic Rent that would otherwise be payable following the Expiration Date was an amount set forth in Schedule 1 attached hereto. In calculating the net present value of the additional Basic Rent payments, such payments shall be discounted at the Discount Rate. For purposes of this Sublease, the net present value of such additional Basic Rent payments shall be referred to as the "Deferred Rent." Schedule 2 attached hereto sets forth an example of the calculation of the Deferred Rent. After the amount of the Deferred Rent shall be calculated, Sublandlord and Subtenant shall determine the amount of the fixed monthly payment that shall be required to be paid by Subtenant from and after the Vacate Date such that the net present value (calculated as of the Vacate Date) of such additional rent payments over the balance of the Term (calculated at the Discount Rate) shall be equal to the amount of the Deferred Rent. For purposes of this Sublease, the monthly payment of additional rent required under this Subsection 2.02(a) shall be referred to as the "Monthly Deferred Rent." Schedule 3 attached hereto sets forth an example of the calculation of the Monthly Deferred Rent. Subtenant shall pay to Sublandlord the Monthly Deferred Rent as and when the monthly installments of Basic Rent shall be payable commencing on the first day of the month next succeeding the date that the amount of the Monthly Deferred Rent is determined. On such date, Subtenant shall also pay to Sublandlord an amount equal to the amount of all installments of Monthly Deferred Rent that shall have accrued since the Vacate Date.

(b) Payments of the Monthly Deferred Rent due under this Section 2.02 shall be made at Sublandlord's address set forth in Article 12 hereof, or such other address as Sublandlord may pursuant to Article 12 advise Subtenant, and such payments shall be payable in advance commencing on the Vacate Date and on

the first day of each calendar month thereafter during the Term; provided, however, if Subtenant's obligation to pay the Monthly Deferred Rent shall commence on a date which shall be other than the first day of a calendar month, the same shall be appropriately prorated and if any payment hereunder shall be payable on a date that shall not be a business day, such payment shall be payable on the next succeeding business day.

Section 2.03. In addition to the Basic Rent that shall be payable to Sublandlord pursuant to Section 2.01 hereof, from and after the Vacate Date, Subtenant shall pay to Sublandlord each installment of Net Annual Rent (as defined in Section 3.01 of the Overlease) that Sublandlord shall be required to pay to Overlandlord from and after the Vacate Date under the Overlease. Payments of Net Annual Rent shall be payable by Subtenant to Sublandlord on the fifth (5th) day prior to the first day of each calendar month that shall occur from and after the Vacate Date; provided, however, the first such payment of the Net Annual Rent shall occur on the Vacate Date if the Vacate Date shall occur after the fifth (5th) day prior to the first day of the next succeeding calendar month. Provided that Subtenant shall have paid the monthly installment of Net Annual Rent that shall be required to be paid hereunder, Sublandlord shall deliver to Subtenant written evidence that Sublandlord shall have made the corresponding payment of the Net Annual Rent to Overlandlord within five (5) days after the date that such payment shall be required to be paid to Overlandlord, which evidence shall include a copy of the check delivered to Overlandlord and Sublandlord's transmittal letter to Overlandlord (if any). If Sublandlord shall fail to deliver such evidence to Subtenant prior to the date that the next installment of Net Annual Rent shall be payable by Subtenant to Sublandlord hereunder, in such case, Subtenant shall thereafter be deemed to be authorized and directed by Sublandlord to make such payments of Net Annual Rent directly to Overlandlord as and when required pursuant to the terms of the Overlease and Subtenant shall be entitled to a credit against the installment(s) of Basic Rent and Monthly Deferred Rent next becoming due hereunder in an aggregate amount equal to the amount of the monthly installment of Net Annual Rent for which Sublandlord shall have failed to deliver to Subtenant evidence that such payment shall have been made to Overlandlord.

Section 2.04. This Sublease shall be deemed and construed to be a "net lease" and Subtenant shall pay to Sublandlord the Basic Rent, the Monthly Deferred Rent, the Net Annual Rent, additional rent and other payments hereunder free of any charges, assessments, impositions or deductions of any kind and without abatement, deduction or set-off, except as otherwise expressly provided herein and in the License Agreement (as defined in the Agreement), and under no circumstances or conditions shall Sublandlord be expected or required to make any

payment of any kind or be under any other obligation or liability hereunder except as otherwise expressly provided herein.

ARTICLE 3

USE OF THE PREMISES

Section 3.01. Subtenant may use and occupy the Premises for any and all of the purposes set forth in the Overlease, and for no other purpose, and further covenants not to do any act which will result in a violation of the Overlease.

ARTICLE 4

INCORPORATION OF THE OVERLEASE TERMS

Section 4.01. (a) All capitalized and other terms not otherwise defined herein shall have the meanings ascribed to them in the Overlease, unless the context clearly requires otherwise.

(b) Except as herein otherwise expressly provided, all of the terms, provisions, covenants and conditions contained in the Overlease, are hereby made a part hereof. The rights and obligations contained in the Overlease, are, during the Term, hereby imposed upon the respective parties hereto, "Sublandlord" being substituted for "Landlord," "Subtenant" being substituted for "Tenant", "Sublease" being inserted for "lease" or "Lease", "sub-subtenant" being inserted for "Subtenant", "Subtenant" being inserted for "Scholastic", "Basic Rent" being inserted for "Net Annual Rent" and "Vacate Date" being inserted for "Effective Date"; provided, however, that Sublandlord shall not be liable to Subtenant for any failure in performance resulting from the failure in performance by the Overlandlord under the Overlease, of the corresponding covenant of the Overlease, and Sublandlord's obligations hereunder are accordingly conditional where such obligations require such parallel performance by Overlandlord. It is expressly agreed that Sublandlord shall not be obligated to perform any obligation which is the obligation of Overlandlord under the Overlease. In the event of a conflict between the performance required by Subtenant or Sublandlord under this Sublease or the performance required by Subtenant or Sublandlord under the Overlease, the provisions of this Sublease shall control. Sublandlord agrees that Subtenant shall be permitted to deal directly with Overlandlord in connection with obtaining any consent or approval that shall be required to be obtained from Overlandlord pursuant to the terms of the Overlease and, in connection therewith, Sublandlord shall

cooperate with Subtenant in connection with Subtenant obtaining any such consent or approval and Sublandlord shall not take any action which will interfere with Subtenant obtaining any such consent or approval from Overlandlord. Subtenant shall deliver to Sublandlord a copy of each consent or approval in connection with the Overlease that Overlandlord shall deliver to Subtenant, such delivery to be made within five (5) business days of posting or receipt, as the case may be. If Overlandlord shall grant any consent or approval that shall be required to be obtained from Overlandlord under the terms of the Overlease, in such case, Sublandlord shall be deemed to have consented to such action by Subtenant; provided, however, if any such consent or approval shall constitute an amendment to the Overlease, such consent or approval shall only be binding upon Sublandlord if the amendment to the Overlease that shall result from such consent or approval would be permitted pursuant to Subsection 5.01(c) hereof. To the extent that Sublandlord shall have any right pursuant to the terms of the Overlease, or otherwise, to consent or approve any action which Overlandlord shall propose to take, Sublandlord agrees that Subtenant shall have the full right and authority on behalf of Sublandlord to approve or consent to any such proposed action of Overlandlord. In addition, in the event that Overlandlord shall fail to perform any of its obligations under the Overlease, Subtenant on behalf of Sublandlord shall have the right to require that Overlandlord perform its obligations under the Overlease and in the event that Overlandlord shall fail to perform its obligations, Subtenant shall be permitted to institute an action or proceeding against Overlandlord, at Subtenant's sole cost and expense, in the name of Sublandlord to enforce Sublandlord's rights under the Overlease which are applicable to Subtenant. Subtenant shall deliver to Sublandlord a copy of any litigation documents in connection with any such action or proceeding against Overlandlord. Subtenant shall also deliver to Sublandlord a copy of each letter or other correspondence in connection with this Sublease that Subtenant shall deliver to Overlandlord or that Overlandlord shall deliver to Subtenant, such delivery to be made within five (5) business days of posting or receipt, as the case may be.

(c) Sublandlord and Subtenant agree that the Overlease annexed hereto as Exhibit "B" and made a part hereof is a true and complete copy of the Overlease.

(d) Subtenant agrees to indemnify, protect, defend and save harmless Sublandlord from and against any and all liability (statutory or otherwise), claims, suits, demands, damages, judgments, costs, fines, penalties, interest and expenses (including, without limitation, reasonable counsel and other professional fees and disbursements incurred in connection therewith, but excluding consequential damages) to which Sublandlord may be subject or suffer arising from, or in

connection with, any default by Subtenant in the performance of any provisions of the Overlease (except as specifically provided to the contrary in this Sublease) that accrue from and after the Vacate Date, except if the same shall have been caused by any act, omission, negligence or willful misconduct of Sublandlord. Subtenant agrees that the provisions of Section 5.03 of the Overlease are incorporated herein and that Sublandlord is an intended beneficiary of such provision. Sublandlord agrees to indemnify, protect, defend and save harmless Subtenant from and against any and all liability (statutory or otherwise), claims, suits, demands, damages, judgments, costs, fines, penalties, interest and expenses (including, without limitation, reasonable counsel and other professional fees and disbursements incurred in connection therewith, but excluding consequential damages) to which Subtenant may be subject or suffer arising from, or in connection with, any default by Sublandlord in the performance of any provisions of the Overlease that accrue prior to the occurrence of the Vacate Date, except if the same shall have been caused by any act, omission, negligence or willful misconduct of Subtenant.

Section 4.02. Notwithstanding anything in this Sublease to the contrary, Subtenant shall be able to deal directly with Overlandlord in connection with any and all matters arising under the terms of the Overlease and in connection therewith Subtenant shall have the sole right to negotiate with and settle or compromise any claims against Overlandlord; provided, however, if any such settlement or compromise shall constitute an amendment to the Overlease, such settlement or compromise shall only be binding upon Sublandlord if the amendment to the Overlease that shall result from such settlement or compromise would be permitted pursuant to Subsection 5.01(c) hereof. In addition, as to any matter which is to be determined by arbitration pursuant to Article 28 of the Overlease, Subtenant shall have the sole right, on behalf of Sublandlord, to participate in such arbitration. Subtenant shall deliver to Sublandlord a copy of any documents in connection with any such settlement or compromise of any claims against Overlandlord or any such arbitration, which documents Sublandlord agrees shall be binding upon Sublandlord.

ARTICLE 5

SUBLEASE SUBJECT TO OVERLEASE

Section 5.01. (a) This Sublease is expressly made subject and subordinate to all of the terms and conditions of the Overlease and to all matters which the foregoing is subject, except as specifically provided to the contrary in this Sublease. Subtenant hereby assumes and covenants that Subtenant shall observe and perform all of the provisions of the Overlease (except as specifically provided to the contrary in this Sublease) that shall accrue during the portion of the Term accruing from and after the Vacate Date which are to be observed and performed by Sublandlord thereunder. Subtenant covenants that Subtenant shall not do any act, matter or thing which will be, result in, or constitute a default under the Overlease; it being expressly agreed to by Subtenant that any such violation, breach or default shall constitute a breach by Subtenant of a substantial obligation under this Sublease. Sublandlord covenants that Sublandlord shall not do any act, matter or thing which will be, result in, or constitute a default under the Overlease; it being expressly agreed to by Sublandlord that any such default shall constitute a default by Sublandlord of a substantial obligation under this Sublease. Notwithstanding the immediate prior sentence, after the Sublandlord has tendered delivery of vacant possession of the Premises to Subtenant, then any default of the Sublandlord in performance of the Overlease shall not affect the payments of Basic Rent and Monthly Deferred Rent to be paid hereunder. Subtenant's sole remedy for any such default shall be to offset the costs and expenses of curing said defaults against the first installments of the Sublease Rent. Notwithstanding anything in this Sublease to the contrary, in any case where the consent or approval of Overlandlord shall be required pursuant to the Overlease, Sublandlord's consent shall not be required hereunder if the Overlandlord shall have granted its consent or approval.

(b) Subtenant covenants and agrees that if, by reason of a default on the part of Sublandlord, as the tenant under the Overlease, in the performance of any of the terms or provisions of the Overlease, or for any other reason of any nature whatsoever, such lease or the leasehold estate of the tenant thereunder is terminated by summary dispossession proceeding or otherwise, then Subtenant will attorn to Overlandlord and will recognize Overlandlord as Subtenant's landlord under this Sublease. Subtenant covenants and agrees to execute and deliver, at any time and from time to time, within five (5) business days following a request therefor by Sublandlord or Overlandlord, any instrument which may be reasonably necessary or appropriate to evidence such attornment. Subtenant further covenants and agrees that the obligation of Subtenant to pay the

Sublease Rent that shall be payable to Sublandlord by Subtenant under this Sublease shall survive the expiration or sooner termination of the Overlease or this Sublease (including without limitation, a termination of the Overlease by reason of a casualty occurring under the provisions of Section 6.02 of the Overlease). The obligation of the Subtenant to make payment of the Sublease Rent to Sublandlord shall be considered an independent covenant of Subtenant to Sublandlord without any conditions or privity of estate between Subtenant and Sublandlord and shall survive the termination of the Overlease or this Sublease and shall continue as a direct obligation of Subtenant to Sublandlord. The sole right of the Subtenant in the event of such termination that does not result in the loss of possession of the Premises by Subtenant or of the Overlease resulting from a default of Sublandlord (which is not assumed to be performed by Subtenant under the terms hereof) shall be to offset the costs and reasonable expenses that Subtenant shall incur in obtaining the attornment or a direct lease with Overlandlord or any other arrangement to maintain occupancy of the Premises (but excluding any rentals to be paid to Overlandlord which are not the obligation of the Sublandlord or the purchase price of the Premises.)

(c) Sublandlord agrees not to amend or modify the Overlease in any way, except as provided below, without Subtenant's prior written approval, which approval may be granted or withheld for any or no reason, and any such amendment or modification that shall be made without Subtenant's prior written approval shall not be binding upon Subtenant. Upon request of Subtenant, Sublandlord shall promptly execute and deliver (i) any amendments or modifications to the Overlease, provided that such amendments or modifications to the Overlease shall not change the provisions of Section 27.01 of the Overlease, and (ii) any amendments or modifications of this Sublease required in order to conform this Sublease with the terms and conditions of the Overlease, as so amended or modified, provided that such amendments or modifications (1) shall not change the rental terms as set forth in Article 2 of this Sublease prior to such amendments or modifications, (2) shall not materially increase Sublandlord's obligations or materially reduce Sublandlord's rights from those set forth in this Sublease prior to such amendments or modifications, and (3) shall, by their terms, become effective on the date that the amendments or modifications to the Overlease shall become effective. If Sublandlord shall not execute and deliver any such amendment or modification of the Overlease or this Sublease within ten (10) days after request of Subtenant, then Sublandlord shall be deemed to constitute and appoint Subtenant as Sublandlord's attorney-in-fact, coupled with an interest, to execute and deliver such amendment or modification for and on behalf of Sublandlord. Any amendment or modification of the Overlease of this Sublease in accordance with the provisions of

this Subsection 5.01(c) shall be binding upon the holder of any mortgage encumbering Sublandlord's interest in the Overlease and this Sublease, and no such amendment or modification shall require the prior approval of the holder of any such mortgage.

(d) Sublandlord covenants and agrees with Subtenant that upon Subtenant paying the Sublease Rent and the Net Annual Rent reserved in this Sublease and observing and performing all of the terms, covenants and conditions of this Sublease on Subtenant's part to be observed and performed, Subtenant may peaceably and quietly enjoy the Premises during the Term, subject, however, to the terms, covenants and conditions of this Sublease.

ARTICLE 6

OCCUPANCY TAX

Section 6.01. If any commercial rent or occupancy tax shall be levied with regard to the Premises, Subtenant shall pay the same to the taxing authority, when due.

ARTICLE 7

NON-APPLICABILITY OF CERTAIN PROVISIONS OF THE OVERLEASE

Section 7.01. (a) All of the terms, provisions, covenants and conditions contained in the Overlease are hereby incorporated by reference and made a part hereof and Subtenant hereby assumes and covenants that Subtenant shall observe and perform all of the provisions of the Overlease that shall accrue during the portion of the Term accruing from and after the Vacate Date which are to be observed and performed by Sublandlord thereunder with the following exceptions and those contained herein, which shall not be incorporated by reference in this Sublease: Section 2.01, Section 3.01, Section 3.02, Section 3.05, Section 3.06, Section 3.08, Section 8.02, clauses (i) and (iv) of Section 13.01, Section 13.02, Section 14.02, Section 16.01(a) shall be amended by deleting the phrase "Tenant shall fail to pay the Net Annual Rent due for the first Lease Year in accordance with Subsection 3.02(a) hereof as and when required by Subsection 3.02(a); or", Subsection 16.01(c), Article 17 and Section 18.05. In addition, any reference in the Overlease to "Designated Person" shall be deemed deleted.

(b) Notwithstanding the incorporation by reference of the Overlease, Sublandlord shall not have the right to enforce such provisions unless Overlandlord shall be enforcing the same provisions under the Overlease against the Sublandlord and in such case Subtenant may deliver directly to Overlandlord any

money or security that Subtenant shall be required to provide pursuant to any such provisions.

(c) Notwithstanding the incorporation by reference of the Overlease, Sublandlord shall not have any right under Section 6.02, Section 16.02 and Section 20.01 of the Overlease to require Subtenant to demolish the Building, it being agreed that any election of Overlandlord under such provisions of the Overlease shall be binding upon Sublandlord and Subtenant, with the obligation of performance on Subtenant.

(d) If Subtenant pursuant to Section 6.02 of the Overlease shall elect to terminate this Sublease, in such case, Subtenant shall have the right to deliver a Termination Notice to Overlandlord, in which case the term of the Overlease shall be terminated as well. Notwithstanding anything to the contrary set forth in this Sublease, the obligation of Subtenant to make payment of the Sublease Rent to Sublandlord shall survive the termination of this Sublease and the Overlease by reason of a casualty occurring under the provisions of Section 6.02 of the Overlease, and shall continue as a direct obligation of Subtenant to Sublandlord as if the balance of the term of this Sublease had continued.

ARTICLE 8

INSURANCE

Section 8.01. (a) From and after the Vacate Date, Subtenant shall maintain during the remainder of the Term all insurance that Sublandlord shall be required to maintain pursuant to Section 5.01 of the Overlease and in connection therewith Subtenant shall cause Sublandlord and Overlandlord to be named as additional insureds in accordance with the requirements of the Overlease and this Sublease.

(b) Notwithstanding anything in Section 5.02 of the Overlease to the contrary, Sublandlord shall have no right to request that Subtenant increase the limits of insurance required by Subsections 5.01(d) and/or (e) of the Overlease, it being agreed that such rights shall be reserved expressly to the Overlandlord.

(c) Notwithstanding the provisions of Article 5 of the Overlease, certificates of, copies or the original insurance policies procured by Subtenant, at Subtenant's option, shall be delivered to Overlandlord.

(d) Any insurance that Subtenant shall deliver to Overlandlord which shall satisfy Overlandlord's requirements under the Overlease, shall be deemed to satisfy Sublandlord's

requirements under this Sublease.

Section 8.02. Notwithstanding anything in the Overlease to the contrary, Sublandlord shall not be entitled to receive any portion of the casualty or condemnation proceeds that shall be payable in connection with any such casualty or condemnation.

ARTICLE 9

REAL ESTATE TAXES

Section 9.01. Supplementing the provisions of Article 4 of the Overlease, Subtenant shall have the right to contest the amount or validity, in whole or in part, of any imposition by appropriate proceedings, and, notwithstanding Section 4.01 of the Overlease, Subtenant may defer payment of such imposition in accordance with Section 4.02 of the Overlease. Upon the termination of such proceedings, Subtenant shall pay the amount of such imposition or part thereof as finally determined in such proceedings, the payment of which may have been deferred during the prosecution of such proceedings, together with any costs, fees, interest, penalties or other liabilities in connection therewith. Sublandlord shall not unreasonably withhold its consent to joining in any such proceedings or permitting the same to be brought in its name if required by law. Sublandlord shall not be subjected to any liability for the payment of any costs or expenses in connection with any such proceedings unless Sublandlord intervenes and takes an affirmative part therein and Subtenant shall indemnify and save harmless Sublandlord from any such costs or expenses, except in the case of such intervention. Subtenant shall be entitled to receive any refund of any such imposition and penalties or interest thereon which have been paid by Subtenant, or which have been paid by Overlandlord or Sublandlord and for which Sublandlord or Overlandlord has been fully reimbursed.

ARTICLE 10

ASSIGNMENT AND SUBLETTING

Section 10.01. Subtenant shall have the right to assign its interest in this Sublease or sublet all or any portion of the Premises without obtaining Sublandlord's prior consent thereto; provided, however, Subtenant shall be required to obtain the consent of Overlandlord if such consent shall be required pursuant to the terms of the Overlease. Upon any assignment, or subletting, Subtenant shall continue to remain liable for its obligations under this Sublease. Simultaneously with the execution of any sublease or assignment a fully executed copy (with all business and other confidential terms redacted) of such sublease or assignment shall be delivered to

Sublandlord. In the event of any such assignment or subletting, Subtenant shall notify Sublandlord, in writing, of the name of the assignee or subtenant, as the case may be, and the business address of such subtenant or assignee for purposes of service of notice of process. In addition, Sublandlord agrees to provide to the subtenant, and, if applicable, to obtain from the holder of any mortgage encumbering Sublandlord's interest in this Sublease for the benefit of such subtenant, a non-disturbance and attornment agreement, which shall provide in substance that, so long as such subtenant is not in default with respect to any of its obligations under its sublease after notice and the expiration of any applicable cure period, the subtenant shall not be joined as a party defendant (unless required by applicable law) (i) in any action or proceeding which may be instituted or taken by Sublandlord or the holder of any mortgage encumbering Sublandlord's interest in this Sublease for the purposes of terminating this Sublease by reason of any default thereunder beyond the expiration of an applicable notice and cure period, or (ii) in any foreclosure action or proceeding which may be instituted by any such mortgage holder. Any non-disturbance agreement shall also provide that the subtenant shall, at the option of Sublandlord or the holder of any mortgage encumbering Sublandlord's interest in this Sublease, either (x) attorn to Sublandlord or the holder of such mortgage and perform for the benefit of Sublandlord or the holder of such mortgage all of the terms, covenants and conditions to be performed by such subtenant under its sublease, or (y) enter into a new sublease with Sublandlord or the holder of such mortgage or their respective successors or assigns for the balance of the term of its sublease on the same terms and conditions as are contained in its sublease. In the event that this Sublease shall be terminated and Sublandlord shall collect from the subtenant any rent under its sublease, then any rent so collected shall be credited against the first installment(s) of the Sublease Rent that shall be payable by Subtenant to Sublandlord under this Sublease.

ARTICLE 11

DEFAULT PROVISIONS

Section 11.01. (a) The provisions of Article 16 of the Overlease are an integral part of this Sublease for the purposes of providing a default provision for the benefit of Sublandlord in the event of a default in the performance by Subtenant of its obligations under this Sublease. For the purposes of enforcing any default by Subtenant hereunder, the rights and obligations contained in Article 16 of the Overlease (other than the provisions of Subsection 16.01(c) of the Overlease), are, during the Term, hereby imposed upon the respective parties hereto, "Sublandlord" being substituted for "Landlord" and

"Subtenant" being substituted for "Tenant". Notwithstanding the provisions of Section 16.01 of the Overlease, other than an Event of Default that shall arise under Subsection 16.01(a) of the Overlease (which shall include the failure to pay the Sublease Rent), no event of default under this Sublease shall be deemed to have occurred unless and until Overlandlord shall have elected to exercise any of its rights under the Overlease as a result of a corresponding default by Sublandlord in the performance of its obligations under the Overlease. Sublandlord agrees to promptly give Subtenant copies of any notices of default received by Sublandlord from Overlandlord. In connection with curing any default under this Sublease, Subtenant shall have five (5) fewer days to cure such default than are otherwise provided in the Overlease for the curing of such default.

(b) In the event that Sublandlord shall encumber its interest under the Overlease, and provided that Sublandlord shall have notified Subtenant in writing of the name and post office address of the holder of such mortgage encumbering the Sublandlord's interest under this Sublease, then Subtenant shall deliver to the holder of such mortgage copies of each notice in connection with this Sublease that Subtenant shall deliver to Sublandlord hereunder and that Subtenant shall deliver to Overlandlord under the Overlease simultaneously with the delivery thereof to Sublandlord or Overlandlord, as the case may be. In the event of a default by Sublandlord in the performance of the terms and provisions of this Sublease, the holder of such mortgage encumbering the Sublandlord's interest under the Overlease shall have the right, during the pendency of any grace or cure period provided in this Sublease, to remedy or cause to be remedied any default by Sublandlord hereunder which is the basis of a default notice, and in the case of a default by Sublandlord not susceptible of being cured by reason of an insolvency of Sublandlord or any other similar events, the holder of such mortgage shall have a reasonable additional period of time needed by such mortgage holder in the exercise of reasonable diligence to foreclose its mortgage and succeed to the interest of Sublandlord hereunder, so long as such mortgage holder has cured all monetary defaults under this Sublease.

ARTICLE 12

NOTICES

Section 12.01. (a) All notices hereunder to Sublandlord or Subtenant shall be given in writing and delivered by hand or by national overnight courier service or mailed by certified or registered mail, postage prepaid, return receipt requested, to the addresses set forth below:

If to Sublandlord:

Kalodop Park Corp.
c/o Wilfred Garage, Inc.
200 East 19th Street
New York, New York 10003
Attn: Fred Spindler

with a copy to:

Fischbein Badillo Wagner Harding
909 Third Avenue
New York, New York 10022
Attn: Hugh Heller, Esq.

If to Subtenant:

Scholastic Inc.
555 Broadway
New York, New York 10012
Attn: General Counsel

with a copy to:

Stroock & Stroock & Lavan
Seven Hanover Square
New York, New York 10004
Attn: Peter A. Miller, Esq.

(b) By notice given in the aforesaid manner, either party hereto may notify the other as to any change as to where and to whom such party's notices are thereafter to be addressed.

(c) Any notice so sent by certified or registered mail shall be deemed given on the date of receipt or refusal as indicated on the return receipt. The effective date of any other notice shall be the date such notice is delivered or the date that delivery thereof shall be rejected.

ARTICLE 13

MISCELLANEOUS

Section 13.01. This Sublease is made in the State of New York and shall be governed by and construed under the laws thereof. During the term of this Sublease, this Sublease supersedes any and all other or prior understandings, agreements, covenants, promises, representations or warranties of or between the parties with respect to the subject matter hereof (which are fully merged herein). The headings in this Sublease are for purposes of reference only and shall not limit or otherwise affect the meaning hereof. Whenever necessary or appropriate, the neuter gender as used herein shall be deemed to include the masculine and feminine; the masculine to include the feminine and neuter; the feminine to include the masculine and neuter; the singular to include the plural; and the plural to include the singular. If Subtenant or Sublandlord shall at any time acquire the interest of the other party in this Sublease, this Sublease shall remain in full force and effect and the estate created hereby shall not be merged unless the party acquiring the interest of the other party shall agree in writing to the contrary. This Sublease is binding upon, and shall inure to the benefit of, the parties and each of their respective successors and permitted assigns, if any.

ARTICLE 14

INVALIDITY OF PARTICULAR PROVISIONS

SECTION 14.01. If any provision of this Sublease or the application thereof to any person or situation shall, to any extent, be held invalid or unenforceable, the remainder of this Sublease, and the application of such provision to persons or situations other than those as to which it shall have been held invalid or unenforceable, shall not be affected thereby, and shall continue to be valid and be enforced to the fullest extent permitted by law.

ARTICLE 15

LEASEHOLD MORTGAGES

SECTION 15.01. Sublandlord represents that, as of the date hereof, there is no Leasehold Mortgage encumbering Sublandlord's interest in the Overlease. This Sublease (as the same may be amended or modified from time to time) is and shall be superior to all Leasehold Mortgages. Sublandlord shall cause each Leasehold Mortgagee to execute and deliver to Subtenant any documents that Subtenant may reasonably require to confirm the

provisions of this Article 15. Any such Leasehold Mortgage shall be made subject to the terms of this Sublease, including, without limitation, the provisions of the last sentence of Subsection 5.01(c) hereof.

ARTICLE 16

SUBLANDLORD'S EXCULPATION

SECTION 16.01. Subtenant agrees that there shall be no personal liability on the part of Sublandlord or any of its officers, directors, shareholders or employees arising out of any default by Sublandlord under this Sublease, and that Subtenant shall look solely to the interest of Sublandlord in the Premises for the enforcement and satisfaction of any default by Sublandlord hereunder, and that Subtenant shall not enforce any judgment (or other monetary decree) against Sublandlord or any of its officers, directors, shareholders or employees from or against any other assets of Sublandlord or any of the personal assets of Sublandlord or any of its officers, directors, shareholders or employees.

ARTICLE 17

EMINENT DOMAIN

Section 17.01. (a) Regardless of any termination of this Sublease pursuant to Article 18 of the Overlease, the Award shall be distributed in the following order of priority:

(i) If Subtenant shall be obligated to repair, alter and restore the remaining parts of the Building and the Premises pursuant to Section 18.04 of the Overlease, the amount expended by Subtenant for the repair, alteration and restoration shall be paid to Subtenant out of the Award;

(ii) If payment out of the Award is made to Subtenant under clause (i) of this Section 17.01, next, or if no such payment is made to Subtenant under clause (i) of this Section 17.01, there shall be paid to Sublandlord (from the proceeds that Sublandlord shall be entitled to receive pursuant to Section 18.05(c) of the Overlease), (1) in the case of a taking of all of the Premises, an amount equal to the net present value (calculated as of the Date of the Taking) of the amount of Basic Rent and Monthly Deferred Rent that Sublandlord would otherwise be entitled to receive pursuant to the terms of this Sublease from and after the Date of Taking to the end of the Term (such amount, the "Sublandlord's Amount") or (2) in the case of a taking of part of the Premises, an amount equal to the product obtained by multiplying (A) the Sublandlord's Amount (as

calculated above), by (B) the fraction obtained by dividing the square footage of the portion of the Premises so taken by the total square footage of the Premises. In calculating the net present value of the Basic Rent and the Monthly Deferred Rent, such payments shall be discounted at the Discount Rate; and

(iii) The balance of the Award shall then be paid to Subtenant.

(b) Notwithstanding the foregoing, Sublandlord shall not be entitled to any portion of the Award that shall be attributable to a temporary taking of the Premises and shall not affect the rental received by the Sublandlord under this Lease.

ARTICLE 18

ESTOPPEL CERTIFICATES BY SUBLANDLORD AND SUBTENANT

Section 18.01. Sublandlord and Subtenant each hereby agree, at any time and from time to time upon not less than twenty (20) days prior written notice by the requesting party, to execute, acknowledge and deliver to the requesting party, or any other party specified by the requesting party, a statement in writing certifying that this Sublease is unmodified and in full force and effect (or if there have been modifications, that the same is in full force and effect as unmodified and stating the modifications) and the dates to which the Sublease Rent have been paid, and stating whether or not, to the best knowledge of the party executing such statement, Sublandlord or Subtenant is in default in the performance of any covenant, agreement or condition contained in this Sublease and, if so, specifying each such default, it being intended that any such statement delivered pursuant to this Section 18.01 may be relied upon by such parties that the party requesting such certificate shall designate, including, without limitation, any prospective assignee or subtenant of Subtenant's interest in this Sublease or the holder of, or prospective holder of, a Subleasehold Mortgage, if requested by Subtenant, or the holder of, or prospective holder of, a Leasehold Mortgage, if requested by Sublandlord.

ARTICLE 19

Like-Kind Exchange

Section 19.01. Each of the parties hereto, without cost or expense to it, shall use its reasonable efforts to cooperate with the other party to enable the other party to effectuate a "like-kind" exchange of its interest in the Premises in accordance with Section 1031 of the Internal Revenue code of 1986, as amended, if the other party so elects, provided the

effectuation of such exchange does not prejudice or otherwise impair the rights possessed by such party under this Sublease.

IN WITNESS WHEREOF, the parties have executed this Sublease as of the day and year first above written.

KALODOP PARK CORP.

By: /s/ [Illegible signature]

Name:
Title:

SCHOLASTIC INC.

By: /s/ Richard Robinson

Name: Richard Robinson
Title: President

EXHIBIT A

ALL that certain plot, piece or parcel of land, situate, lying and being in the Borough of Manhattan, County of New York, City and State of New York, bounded and described as follows:-

BEGINNING at a point on the westerly side of Broadway distant one hundred and one feet southerly from the corner formed by the intersection of the said westerly side of Broadway with the southerly side of Prince Street;

RUNNING THENCE Westerly parallel with Prince Street, 200 feet to the easterly side of Mercer Street;

THENCE Southerly along the said easterly side of Mercer Street, 50 feet;

THENCE Easterly again parallel with Prince Street, 200 feet to the Westerly side of Broadway; and

THENCE Northerly along the said westerly side of Broadway, 50 feet to the point or place of BEGINNING.

EXHIBIT B

OVERLEASE

[NOT REPRODUCED HEREIN]

B-1

SCHEDULE 1

BASIC RENT ASSUMPTIONS

| PERIOD - - - - - | BASIC RENT AMOUNT - - - - - |
|---|--------------------------------|
| 1. Twelfth (12th) anniversary of the Vacate Date through the date immediately preceding the fifteenth (15th) anniversary of the Vacate Date | \$544,195.58/annum |
| 2. Fifteenth (15th) anniversary of the Vacate Date through the date immediately preceding the eighteenth (18th) anniversary of the Vacate Date | \$587,731.23/annum |
| 3. Eighteenth (18th) anniversary of the Vacate Date through the date immediately preceding the twentieth (20th) anniversary of the Effective Date | \$634,749.73/annum |

SCHEDULE 2

DEFERRED RENT

Assumptions:

1. Term of Sublease - December 1, 1996 - March 31, 2013 (the "Expiration Date")
2. Effective Date - December 1, 1996
Vacate Date - December 1, 1996
3. Expiration Date for a 20 Year Sublease - November 30, 2016
4. Rent Shortfall -
 - (i) April 1, 2013 - November 30, 2014
\$48,977.60/mo. x 20 months = \$ 979,552.00
 - (ii) December 1, 2014 - November 30, 2016
\$52,895.81/mo. x 24 months = \$1,269,499.44

| | |
|-------|----------------|
| Total | \$2,249,051.44 |
|-------|----------------|
5. Net Present Value of the Rent Shortfall (calculated as of the Expiration Date)
 - (i) The net present value of the amount set forth in Paragraph 4(i) above equals \$922,075.69(1)
 - (ii) The net present value of the amount set forth in Paragraph 4(ii) above equals \$1,037,518.69(2)

- -----

- (1) The net present value as of the Expiration Date for this calculation was determined by discounting, at the Discount Rate (compounded monthly), twenty (20) equal monthly installments of rent in the amount of \$48,977.60 paid in advance at the beginning of each month.
- (2) This amount was calculated as follows:
 - (i) the net present value (as of December 1, 2014) of the twenty-four (24) monthly payments of \$52,895.81 paid in advance was determined by discounting, at the Discount Rate (compounded monthly), such payments. This calculation equals \$1,180,081.31.
 - (ii) The amount of \$1,180,081.31 was then divided by 1.137403. The number 1.137403 was determined utilizing the following formula - $x = (1 + (.0775 / 12))^n$, where n equals the number of months between March 31, 2013 and November 30, 2014. N in this example equals 20.

SCHEDULE 2 (Cont'd.)

DEFERRED RENT

Assumptions:

Total Net Present Value (equal to the sum of the amounts set forth in 5(i) and 5(ii) above) \$1,959,594.38.

6. Deferred Rent (Net Present Value of the amount set forth in #5 calculated as of the Vacate Date) -

\$ 554,867.60(3)

- -----

- (3) The amount of \$554,867.60 was determined by dividing \$1,959,594.38 by 3.5316432. The number 3.5316432 was determined utilizing the following formula - $x = (1 + (.0775 / 12))^n$ where n equals the number of months from the Vacate Date through the Expiration Date. N in this example equals 196.

SCHEDULE 3

MONTHLY DEFERRED RENT

1. Amount of Deferred Rent \$ 554,867.60

2. Monthly Deferred Rent
(Amount required to pay
the Deferred Rent over
the Term of the Sublease
occurring from and after
the Vacate Date) \$ 4,966.93/month

SCHOLASTIC CORPORATION
SUBSIDIARIES OF THE REGISTRANT

Domestic Subsidiaries

State of Incorporation

| | |
|--|----------------------------------|
| Scholastic Inc. | New York |
| Children's Music Library, Inc. (a subsidiary of Weston Woods Studios, Inc.) | New York |
| The Electronic Bookshelf, Inc. Georgetown Studios, Inc. (a subsidiary of Weston Woods Studios, Inc.) | Indiana Connecticut |
| Lectorum Publications, Inc. SE Distribution Inc. (a subsidiary of Scholastic Entertainment Inc.) | New York Delaware |
| Scholastic Book Clubs, Inc. Scholastic Book Services, Inc. Scholastic Entertainment Inc. (formerly Scholastic Productions Inc.) | Missouri Delaware New York |
| Scholastic UK Group Ltd. (formerly Scholastic Publications (Magazines), Ltd.) | Delaware |
| Weston Woods Studios, Inc. | Delaware |

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 Book Fairs Canada Inc. | Canada |
| Scholastic Ltd. | England |
| 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 |
| Scholastic Book Fairs Ltd. | Ireland |
| Scholastic India Private Limited | India |
| Scholastic Mexico, S.A. de C.V. | Mexico |
| Scholastic New Zealand Ltd. | New Zealand |

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 Inc. 401(K) Savings and Retirement Plan, in the Registration Statement (Form S-8 No. 33-46338) pertaining to the 1992 Stock Option Plan as of May 19, 1992, in the Registration Statement (Form S-8 No. 33-50128) pertaining to the Outside Directors' Stock Option Plan and the Stock Option Agreement with Joseph W. Oliver in the Registration Statement (Form S-8 No. 33-74064) pertaining to the Non-Employee Director Stock-For-Retainer Plan and in the Registration Statement (Form S-3 No. 333-17365) pertaining to \$150,000,000 of Securities of our report dated July 8, 1999 except for Note 12, as to which the date is August 11, 1999, 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, 1999.

/s/ERNST & YOUNG LLP

New York, New York
August 20, 1999

5
0000866729
Scholastic Corporation
1,000

12-MOS
MAY-31-1999
MAY-31-1999 5,882
0
148,700
12,315
227,467
434,200 214,504
65,369
842,300
211,800 234,795
0
0
177
361,210
842,300 1,154,710
1,154,710 561,100
1,054,400
22,400
17,000
19,000
58,900
22,100
0
0
0
0
36,800
2.25
2.20

5
0000866729
Scholastic Corporation
1,000

12-MOS
MAY-31-1998
MAY-31-1998 5,062
0
126,750
10,077
200,300
382,640 191,157
54,330
763,599
181,702 234,750
0
0
175
317,963
763,599 1,058,400
1,058,400 536,800
977,200
33,100
14,600
19,980
38,135
14,500
0
0
0
0
23,644
1.46
1.45