



Reading and
the Joy of Learning!

Dear Fellow Shareholder,



Scholastic met its revenue and profit goals in fiscal 2002, while proving our continued relevance to society after the 9/11 attacks and our company's stability, strength and soundness in a period of uncertainty.

At a time when it was especially important for children to experience comfort and understanding, we

brought reading and the joy of learning into millions of homes and classrooms. Through our magazines and Web sites, we explained about the contemporary world—its greatness and its tragedy—to the children, teachers and parents we serve, and through our *Pledge of Allegiance* book and special *United We Stand* book collections, we made young people aware of the resilience and enduring strengths of America. Teachers and parents told us how much they appreciated our help. Our book fairs, family events which take place in schools, experienced a strong increase in participation as families shared in the spirit of community following the attacks. Meanwhile, our business strengthened in profitability, despite the absence of a new *Harry Potter*® title.

Fiscal 2002 Results

Revenue declined as expected by 2% to \$1.9 billion compared to fiscal 2001, which included the phenomenal sales of *Harry Potter and the Goblet of Fire*. Operating income increased to \$185 million from \$99 million, net income increased to \$93.5 million from \$36 million, and earnings per diluted share increased to \$2.38 from \$1.01. These results include an after-tax charge in fiscal 2002 of \$0.13 per share for a change in accounting, and a special charge of \$1.20 per diluted share in fiscal 2001 relating to the decision not to update *Scholastic Literacy Place*®.

Key factors in our improved results include:

- **Revenue growth** of 9% in School Book Clubs, 18% in School Book Fairs and 9% in Educational Publishing, excluding *Scholastic Literacy Place*. Apart from *Scholastic Literacy Place* and *Harry Potter*; Scholastic's total revenue increased 5%.

- **Record operating margin** of 9.6% compared to 8.7% last year (excluding the special charge), driven by \$45 million in cost reductions, \$19 million in reduced prepublication and production amortization, \$13 million in reduced goodwill and other intangibles amortization, and improved profitability Direct-to-Home Continuities.
- **Reduced interest costs** of \$10 million, reflecting lower rates and the conversion of \$110 million in debt to equity in January, which significantly strengthened our balance sheet.

Children's Book Publishing and Distribution

Revenue for this business increased 6% in fiscal 2002, excluding Trade sales of *Harry Potter*. School Book Clubs and Fairs performed well. We strengthened Direct-to-Home Continuities, building a more profitable customer base, and Trade benefited from hit properties such as *Harry Potter*, *Captain Underpants*®, *Clifford The Big Red Dog*®, *Scooby Doo*™, and *Powerpuff Girls*™. In fiscal 2003, we expect continued growth in school-based distribution, while Trade revenue will partly depend on when we publish *Harry Potter* book five.



Educational Publishing

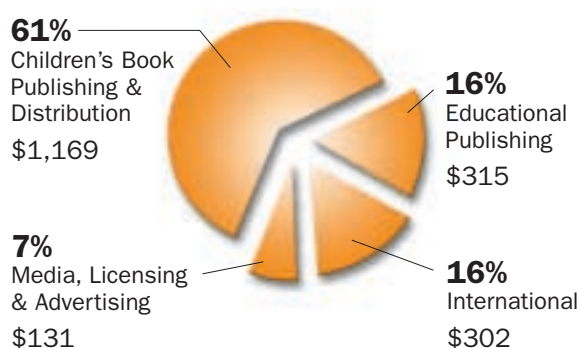
We successfully repositioned this business in fiscal 2002 through an increased focus on reading improvement products for pre-K through high school. This strategy—permitted in part by the reduced emphasis on *Scholastic Literacy Place*—enabled us to grow revenue 14% in reading intervention and 13% in supplemental publishing and resulted in a strong increase in segment profitability. Building upon this base, our goal in fiscal 2003 is expanded sales of reading programs such as *Read 180*®



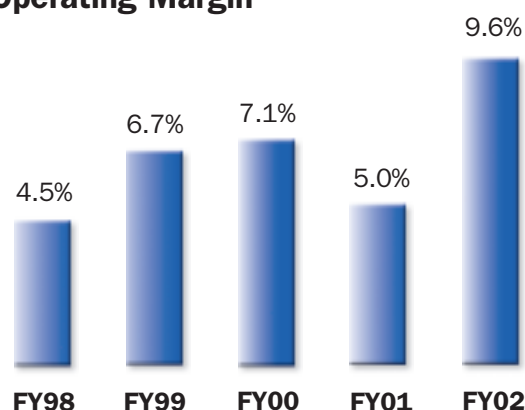
Financial Highlights

(\$ in millions except EPS)

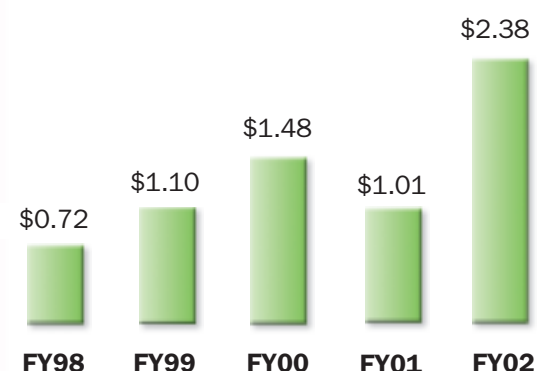
Revenue Mix \$1,917 (FY02)



Operating Margin*



Earnings Per Share*



*FY2002 includes the impact of a change in accounting charge of \$0.13 per diluted share, with no operating margin impact, and a Litigation and other charge of \$0.02, with an operating margin impact of 0.1%.
 FY2001 includes a special charge of \$1.20 per diluted share, with an operating margin impact of 3.7%.
 FY2000 includes charges of \$0.15 per diluted share, with an operating margin impact of 0.6%.

for struggling students, as well as in supplemental publishing, educational technology and professional development products. We also continue to strengthen our school and public library reference business, combining the outstanding imprints of *Grolier*®, *Grolier Online*®, *Franklin Watts*® and *Children's Press*® into the new Scholastic Library Publishing division.

International

International operations generated renewed growth in fiscal 2002, particularly in the fourth quarter, resulting in revenue and profit gain for the year. We plan to continue our progress in fiscal 2003 through ongoing improvements in our base



Spanish-language books, and expanded distribution of English-language books and educational materials in Asian markets, where parents are eager for their children to learn English.

Media, Licensing and Advertising

The operating loss for this segment dropped by more than a third in fiscal 2002 due to improved margins in School



Software Clubs and reduced spending for Scholastic.com. Scholastic Entertainment continued to create valuable visibility with our TV hit, *Clifford The Big Red Dog*™, while Scholastic.com launched new e-commerce initiatives for teachers and families. In

fiscal 2003, we will launch a new TV series based on our *I Spy*™ publishing franchise and further expand our e-commerce revenue.

Acquisitions

We enhanced our content offerings and distribution through five acquisitions in fiscal 2002: Klutz, the leader in “book plus” products for children; Tom Snyder Productions, a leader in

supplemental classroom software; Teacher's Friend Publications, Inc., a major provider of classroom decoratives; assets of Troll Book Fairs, a national school book fair operator; and Baby's First Book Club®, which markets books and toys for infants up to 8 months old. In early fiscal 2003, we launched a joint venture with, and made an investment in, The Book People, the leading direct marketer of books in the United Kingdom, to expand our Direct-to-Home business there.

Looking Ahead

Fiscal 2002 was a watershed year for Scholastic. We again were privileged to demonstrate our relevance to society following 9/11, supporting schools and teachers through our magazines, books, Web sites, clubs and fairs. Through cost reduction and a major turnaround in Educational Publishing, net income improved despite a \$118 million reduction in *Harry Potter* sales compared to the previous year. Acquisitions enhanced our children's book, continuity, and educational technology businesses. We expanded our Internet capabilities while reducing costs, and we continued to produce the most watched television program for younger children, benefiting our licensing and book sales.

Looking to 2003 and beyond, we will build upon the treasured Scholastic brand to expand our services to the home, while further strengthening our school-based businesses. Continuing to fulfill our goal of encouraging reading and the joy of learning for children everywhere will make Scholastic an even stronger company for the children we serve, while improving opportunities for our employees and building a more profitable, valuable business for all.

Richard Robinson
Chairman, President and CEO

Selected Financial Data

(Amounts in millions, except per share data.) Please refer to the detailed financial reporting included in the Scholastic Annual Report on Form 10-K.

For fiscal years ended May 31st,

Statement of Income Data:

	2002 ⁽¹⁾	2001 ⁽²⁾	2000 ⁽³⁾	1999	1998
Total revenues	\$1,917.0	\$ 1,962.3	\$1,402.5	\$ 1,165.5	\$1,069.8
Cost of goods sold	852.1	899.7	692.8	586.1	560.4
Cost of goods sold – Special Literacy Place and other charges	-	72.9	-	-	-
Selling, general and administrative and other expenses	879.0	891.0	602.2	501.5	449.8
Litigation and other charges	1.2	-	8.5	-	11.4
Operating income	184.7	98.7	99.0	77.9	48.2
Gain on sale of the SOHO Group	-	-	-	-	10.0
Interest expense, net	(31.4)	(41.6)	(18.6)	(19.0)	(20.1)
Earnings before cumulative effect of accounting change	98.7	36.3	51.4	36.8	23.6
Cumulative effect of accounting change (net of income taxes)	(5.2)	-	-	-	-
Net income	93.5	36.3	51.4	36.8	23.6
Earnings per diluted share before cumulative effect of accounting change	\$ 2.51	\$ 1.01	\$ 1.48	\$ 1.10	\$ 0.72
Earnings per diluted share	\$ 2.38	\$ 1.01	\$ 1.48	\$ 1.10	\$ 0.72
Weighted average diluted shares outstanding	40.1	36.1	37.1	33.4	32.8


Balance Sheet Data:

Working capital	\$ 468.1	\$ 394.6	\$ 253.9	\$ 222.4	\$ 201.0
Total assets	1,636.7	1,501.8	983.2	842.3	763.6
Long-term debt	525.8	585.3	241.1	248.0	243.5
Total stockholders' equity	718.9	493.7	430.0	361.4	318.1

(1) In fiscal 2002, the Company adopted Statement of Position No. 00-2, “Accounting by Producers and Distributors of Films,” which resulted in a \$5.2 after-tax charge, recorded as a Cumulative Effect of Accounting Change. The impact on earnings per diluted share of this adoption was \$0.13. Fiscal 2002 also includes a charge of \$1.2 pre-tax (\$0.02 per diluted share) related to the settlement of a lawsuit.

(2) In fiscal 2001, the impact of the \$72.9 pre-tax special charge on earnings per diluted share was \$1.20.

(3) In fiscal 2000, the impact of the \$8.5 pre-tax charges on earnings per diluted share was \$0.15.



Scholastic books and related products reach families with children through schools and at home.

Children's Book Publishing and Distribution

Scholastic helps millions of parents, teachers, and booksellers guide children to quality books. Through proprietary school-based clubs and fairs, continuities and Internet sites, as well as traditional retail outlets, we are the market leader, distributing more than 320 million books in Fiscal 2002. Our strategy is to continue to strengthen our existing channels, while expanding distribution directly to the home and through mass and specialty retail.

Trade Book Publishing — In Fiscal 2003, our new line-up includes more of what kids love, like *Clifford*® and *Captain Underpants*®, as well as the new series *Outernet*, *McGrowl* and *Deltora Shadowlands*. A long-awaited sequel by Don and Audrey Wood, *Merry Christmas Big Hungry Bear* tops our list of picture books, along with *David Gets in Trouble* by best-selling author David Shannon and *How Do Dinosaurs Get Well Soon?* from Jane Yolen and Mark Teague. A revised edition of *The Scholastic Children's Dictionary*,

the second in the Arthur trilogy, *Crossing Places* by Kevin Crossley-Holland, and *The Thief Lord* by Cornelia Funke, will also be published.

School-Based Distribution — More than one million teachers sponsored Scholastic Book Clubs, generating over 10 million orders. More than 65,000 schools held over 100,000 Scholastic Book Fairs. In Fiscal 2003, our goal is increased teacher and student participation in clubs and expanded fair revenue through the continued success of Family Nights and other programs.

Continuity Programs — Continuity programs build direct, long-term relationships between parents and Scholastic. To expand our product offerings to parents of younger children, we acquired Baby's First Book Club®, and we refined our Direct-To-Home promotions to attract a stronger customer base. In Fiscal 2003, we plan to build upon these gains, while improving our school-based continuities business.





Scholastic is the leading provider of products that improve student reading achievement.

Educational Publishing

Scholastic is a leader in creating engaging print and technology materials that support teachers and help students become successful readers.

***Reading Improvement* — Our comprehensive reading-intervention program *Read 180* had a strong year, establishing Scholastic as a leader in reading improvement. New research further validated its effectiveness and we recently launched a high school edition. We also positioned *Scholastic Read XL*[®] as a leading middle school intervention program, launched *Scholastic Summer School*[™] for grades 1–8, and developed new products such as the *Scholastic Early Childhood Program*[™].**

***Educational Technology* — Scholastic has a significant presence in classroom software. Our recent acquisition of Tom Snyder Productions adds a leading brand to this category, enhancing our capacity to create new products.**

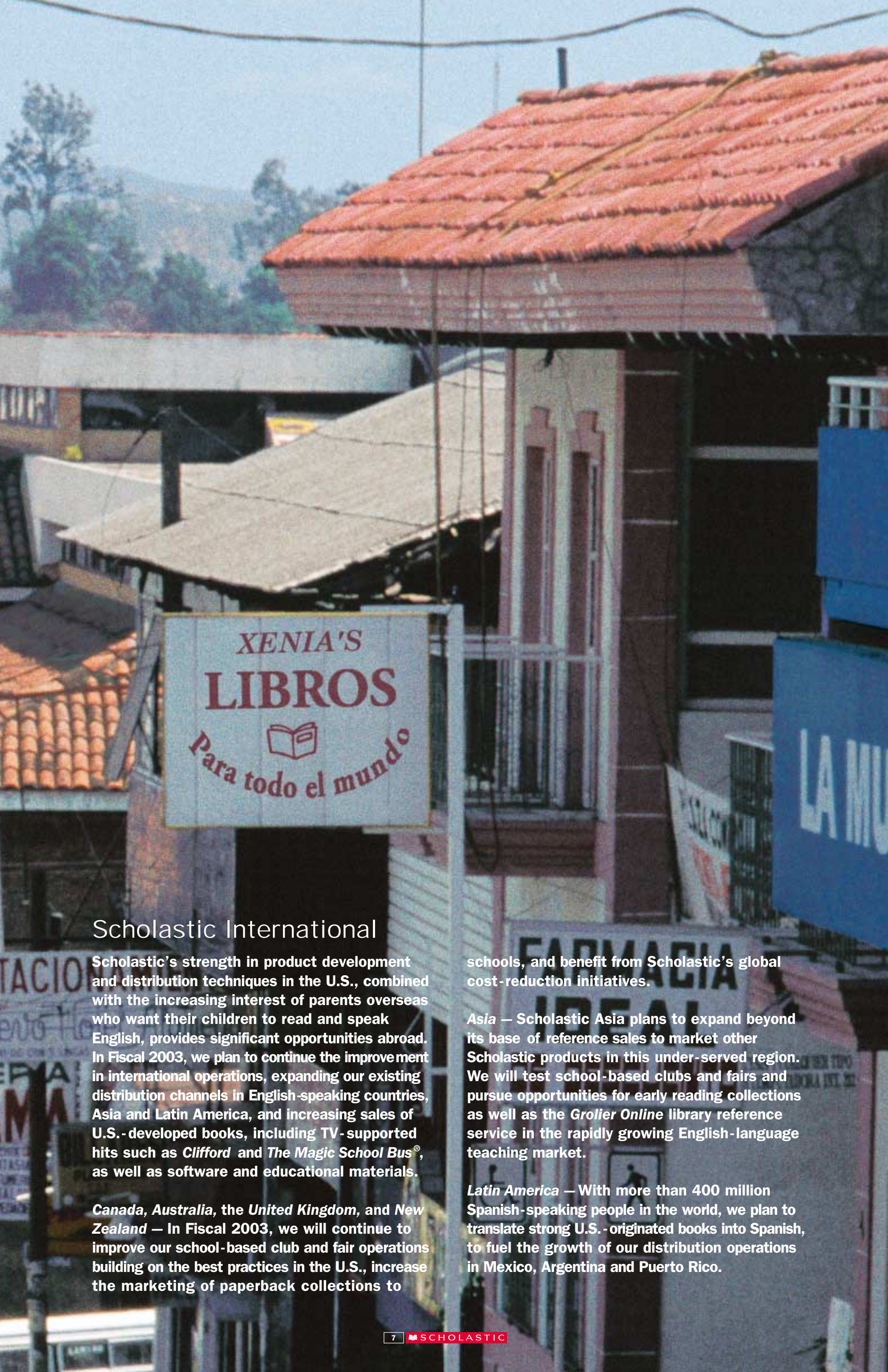
***Professional Development* — Helping teachers become more effective is a key element to our business. In Fiscal 2002 we introduced *Scholastic Red*[™], combining online and in-person training to bring educators the best techniques for teaching reading.**

We will continue to focus on growing three other educational businesses in Fiscal 2003: Supplemental Publishing, where we are the leading provider of professional resources and classroom paperback collections; Classroom Magazines, with more than seven million subscribers; and Scholastic Library Publishing, where we are the leader in print and online children's reference and nonfiction material, including the respected imprints of *Grolier*, *Grolier Online*, *Children's Press* and *Franklin Watts*.



Scholastic is a learning resource
for teachers, parents and children
around the world.





Scholastic International

Scholastic's strength in product development and distribution techniques in the U.S., combined with the increasing interest of parents overseas who want their children to read and speak English, provides significant opportunities abroad. In Fiscal 2003, we plan to continue the improvement in international operations, expanding our existing distribution channels in English-speaking countries, Asia and Latin America, and increasing sales of U.S.-developed books, including TV-supported hits such as *Clifford* and *The Magic School Bus*®, as well as software and educational materials.

Canada, Australia, the United Kingdom, and New Zealand — In Fiscal 2003, we will continue to improve our school-based club and fair operations building on the best practices in the U.S., increase the marketing of paperback collections to

schools, and benefit from Scholastic's global cost-reduction initiatives.

Asia — Scholastic Asia plans to expand beyond its base of reference sales to market other Scholastic products in this under-served region. We will test school-based clubs and fairs and pursue opportunities for early reading collections as well as the *Grolier Online* library reference service in the rapidly growing English-language teaching market.

Latin America — With more than 400 million Spanish-speaking people in the world, we plan to translate strong U.S.-originated books into Spanish, to fuel the growth of our distribution operations in Mexico, Argentina and Puerto Rico.

Scholastic.com is the #1 Web site
for K-8 teachers and classrooms.

scholastic.com/online/secure/welcome.jsp?business=554467&requestid=...

Welcome Page

Refresh Home AutoFill Print Mail

Scholastic and by Special Arrangement **TRUMPET Carnival**

Books & Software Clubs Ordering Online

Rebecca Wolfe

COOL SCHOOL #1
557 BROADWAY
NEW YORK, NY 10012

Your online order will be shipped to the address that appears above.

Is your name or address incorrect?
[Click here.](#)

Your Bonus Point Bank Balance: 627

Important information about your Bonus Points!
[Click here.](#)

START a New Order

Ordering is easy! Just enter your 6-character catalog code below, and click **Start**.

Start

Can't locate your catalog code? It's printed just above your name and address on the back of your catalog. Still can't find it?

FINISH a Pending Order

These are orders you've begun, but not yet submitted. To complete an order, just click on it.

► **Carnival Primary May 2002**
This pending order expires 12/31/02.

To delete a pending order, [click here](#).

Remember, incomplete orders are automatically deleted after their expiration date.

© 2001-1996 Scholastic, Inc. All rights reserved.
Read our [Privacy Policy](#) [Statement of Use](#)



Scholastic Internet Group

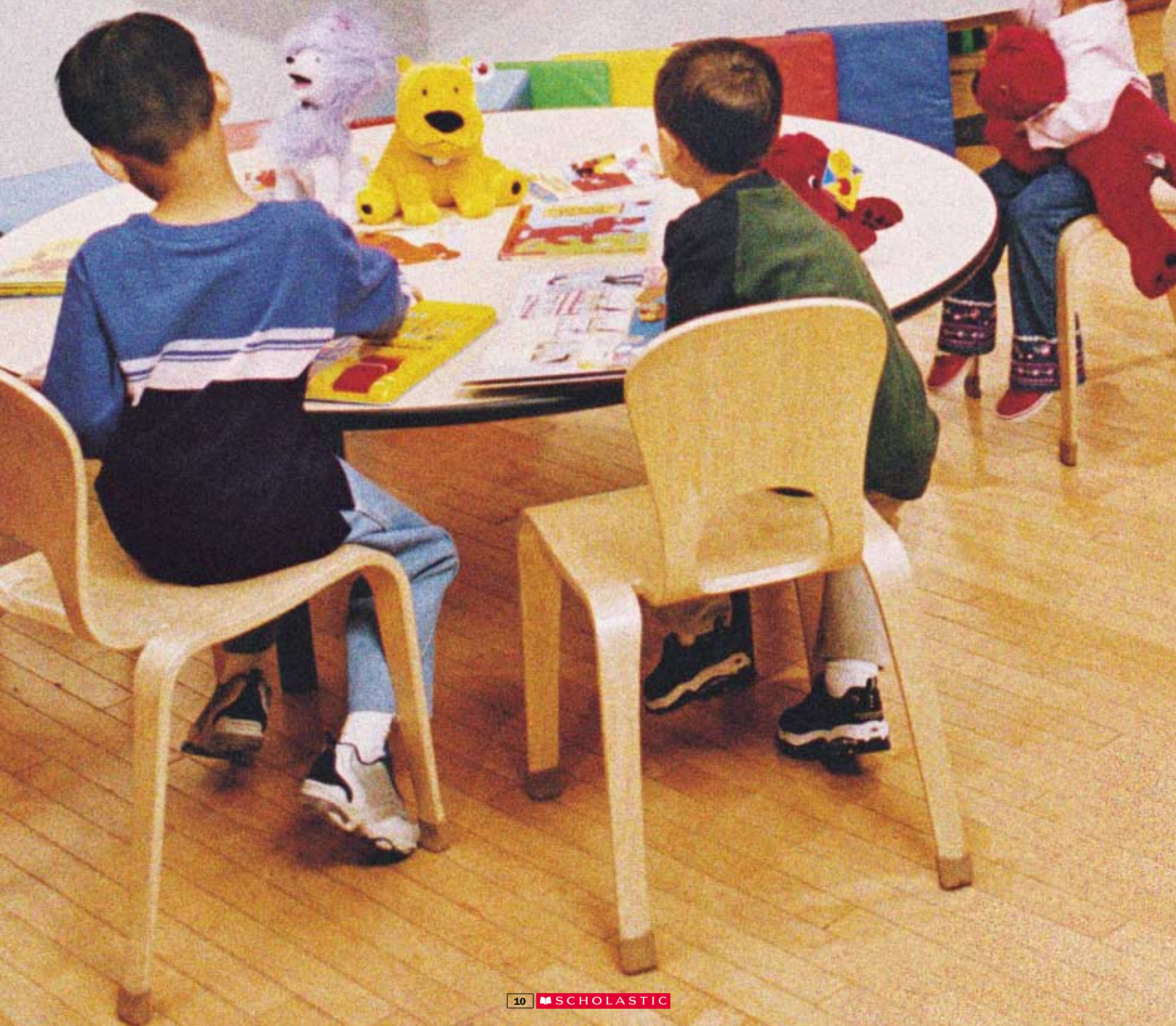
Scholastic.com is a powerful resource for teachers, families and children. The site offers unparalleled content and community, as well as three new e-commerce initiatives, making it easy for teachers and parents to access the children's books, educational materials and supplies they need. Our strategy is to leverage the two billion impressions Scholastic makes annually to drive Web traffic and build Scholastic.com into an important proprietary channel of distribution.

Club Ordering Online — Enables teachers who sponsor Scholastic School Book Clubs to automate the ordering process, eliminate paperwork and save time. By the end of the school year, the service was generating more than 10% of all book club orders.

The Teacher Store at Scholastic.com — Offers quick and convenient purchasing of Scholastic classroom and professional products, organized by grade and subject, at teacher-preferred pricing. Launched early in calendar 2002, the store has generated thousands of orders since its debut.

The Scholastic Store Online — Provides an easy shop-at-home experience for parents of children up to age 12. *The Scholastic Store Online* (www.ScholasticStore.com) went live in spring 2002, featuring a broad mix of merchandise organized by a child's age, interests and the school academic calendar, increasing parents' ability to support their child's learning at home.

Scholastic's *Clifford The Big Red Dog* TV series is ranked #1 with kids ages 2-5 and 2-11.





Scholastic Entertainment

Scholastic Entertainment develops favorite Scholastic books into hit media properties and major brands. Our related global merchandising, licensing and promotional programs build children's interest in reading and learning, and help increase book sales. Spin-off products include books based on the TV series, videos, DVDs, educational software and quality consumer products.

Four areas of initiative are:

Television — *Clifford The Big Red Dog*: 25 new episodes (which now total 65) for PBS Kids™. *Clifford*™ has successfully expanded into 37 international markets, including Canada, Australia and the U.K. *I Spy*™: 26 episodes in production of an animated series for HBO Family, with a full program of tie-in media, publishing and consumer products in development.

Movies — We are planning to produce an animated *Clifford*™ movie for Warner Brothers and a live-action *His Dark Materials* movie based on Philip Pullman's award-winning, best-selling trilogy for New Line Cinema.

Program Library — Scholastic's *The Magic School Bus*® series was sold for second-run syndication to Discovery Kids and The Learning Channel, while the *Horrible Histories*™ television series continues to drive book sales in the U.K.

Brand Marketing and Consumer Products — *Clifford*™ generated \$250 million at retail from the sale of branded books, videos, and consumer and licensed products which provide royalties to Scholastic. *Scholastic boutiques at Toys "R" Us* debuted successfully with sales of high quality, Scholastic-branded learning toys.

Directors and Officers

(as of August 15, 2002)

Directors of the Corporation

Richard Robinson (E)
Chairman of the Board, President and Chief Executive Officer, Scholastic Corporation

Rebeca M. Barrera (N, P)
President, National Latino Children's Institute

Helen V. Benham (E, P)
Corporate Vice President, Early Childhood Advisor, Scholastic Corporation

Ramon C. Cortines (H, N, P, SA)
Education Consultant

John L. Davies (A, H, S)
Founder and former President, AOL International

Charles T. Harris III (E, N, R)
Managing Director, Goldman Sachs & Co.

Andrew S. Hedden (E, R)
Partner, Coudert Brothers LLP

Mae C. Jemison (N, P)
Founder and President, BioSentient Corporation

Linda B. Keene (A, H, S)
Principal, Waterford Marketing Group

Peter M. Mayer (E, P, H, S)
President and Publisher, Overlook Press/Peter Mayer Publishers, Inc.

John G. McDonald (H, S)
The IBJ Professor of Finance, Graduate School of Business, Stanford University

Augustus K. Oliver (A, E, R)
Managing Director, Waterview Advisors LLC

Richard M. Spaulding (E, P, R)
Executive Vice President, Marketing, Scholastic Corporation

Incumbent Directors

Key: **A:** Audit Committee
E: Executive Committee
H: Human Resources and Compensation Committee
N: Nominating Committee
P: Strategic Planning Committee (formerly Publishing and Program Committee)
R: Retirement Plan Committee (formerly Fiduciary Committee)
S: Stock Grant Committee
SA: Stock Grant Committee Alternate

Corporate Executive Officers

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

Kevin J. McEnery
Executive Vice President and Chief Financial Officer

Deborah A. Forte
Executive Vice President and President, Scholastic Entertainment

Donna Iucolano
Executive Vice President and President, Scholastic Internet Group

Barbara A. Marcus
Executive Vice President and President, Children's Book Publishing

Margery W. Mayer
Executive Vice President and President, Scholastic Education

Hugh Roome
Executive Vice President and President, Scholastic International Group

Richard M. Spaulding
Executive Vice President, Marketing

Judith A. Corman
Senior Vice President, Corporate Communications and Media Relations

Charles B. Deull
Senior Vice President, General Counsel and Secretary

Ernest B. Fleishman
Senior Vice President, Education and Corporate Relations

Beth Ford
Senior Vice President, Global Operations

Maurice H. Greenfield
Senior Vice President and Chief Information Officer

Larry V. Holland
Senior Vice President, Corporate Human Resources and Employee Services

Helen V. Benham
Corporate Vice President, Early Childhood Advisor

Karen A. Maloney
Vice President and Corporate Controller

Offices

U.S. Offices

**Scholastic Corporation
Scholastic Inc.
Corporate and Editorial Offices**
557 Broadway
New York, NY 10012
212-343-6100
Web site—www.scholastic.com

Grolier Incorporated
90 Sherman Turnpike
Danbury, CT 06816
203-797-3500

**Scholastic Corporation
Accounting Services and
Information Systems Center**
100 Plaza Drive, 4th floor
Secaucus, NJ 07094
201-633-2400

**Scholastic Distribution Center
and Scholastic Book Clubs, Inc.**
2391 East McCarty Street
Jefferson City, MO 65101
573-636-5271

Scholastic Book Fairs
1080 Greenwood Boulevard
Lake Mary, FL 32746
407-829-7300

Customer Service
1-800-SCHOLASTIC
(1-800-724-6527)
www.scholastic.com/custsupport/index.htm

International Offices

Argentina
Scholastic Argentina S.A.
54-11-4836-1450

Australia
Scholastic Australia Pty. Ltd.
61-24-328-3555

Grolier Australia Pty. Ltd.
61-29-966-5120

Canada
Scholastic Canada Ltd.
905-887-7323

Grolier Limited (Canada)
450-667-1510

Hong Kong
Scholastic Hong Kong Ltd.
852-2722-6161

Grolier International, Inc.
852-2527-6312

India
Scholastic India Private Ltd.
91-124-643-8016

Grolier International
Private Limited (India)
91-11-628-1356

Indonesia
Grolier International, Inc.
62-21-310-6886

Ireland
Scholastic Ireland
62-21-310-6886

Malaysia
Grolier (Malaysia) SND. BHD.
60-3-2070-4911

Mexico
Scholastic Mexico, S.A. de C.V.
52-55-5559-8000

New Zealand
Scholastic New Zealand Ltd.
63-2-817-4771

Philippines
Grolier International, Inc.
63-2-817-4771

Singapore
Grolier International, Inc.
65-6297-2133

Taiwan
Grolier International, Inc.
886-2-2752-8901

Thailand
Grolier International, Inc.
66-2-233-0582

United Kingdom
Scholastic Ltd.
44-1926-887799

Grolier Limited (U.K.)
44-1603-740400

Stockholder Information

10-K
Copies of Scholastic's Form 10-K are available without charge upon written request to:

Scholastic Corporation
Investor Relations
557 Broadway
New York, NY 10012

2002 Annual Meeting
The 2002 Annual Meeting of Stockholders will be held on Tuesday, September 24, 2002, at 9:00 A.M., at Scholastic's Corporate Headquarters, 557 Broadway, New York, NY 10012.

Investor Information
212-343-6741
Email: investor_relations@scholastic.com

Investor Relations
The Company posts on its Web site, www.scholastic.com/aboutscholastic/investor/index.htm the date of its upcoming financial press releases and telephonic analyst calls at least five days prior to dissemination. The Company's analyst calls are open to the public and remain available to the public through the Company's Web site for at least five days thereafter.

To obtain information about the Company, please contact:

Raymond Marchuk
Senior Vice President, Finance and Investor Relations
212-343-6741

Email: investor_relations@scholastic.com

Forward-Looking Statements

This Annual Report contains certain forward-looking statements. Such forward-looking statements are subject to various risks and uncertainties including the conditions of the children's book and instructional material markets and acceptance of the Company's products within those markets and other risks and factors identified from time to time in the Company's filings with the Securities and Exchange Commission. Actual results could differ materially from those currently anticipated.

Cover photo by David Harry Stewart based on a concept by Vicki Kasala. Pages 2-3 by David Harry Stewart; pages 4-5 by Ziggy Kaluzny; pages 6-7 family by Jimmy Levin, background city by © Danny Lehman/CORBIS; pages 8-9 by David Harry Stewart; pages 10-11 by David Harry Stewart.

Designed by Scholastic's Corporate Graphic Design Services.

Scholastic

Credo and Editorial Platform



Scholastic produces educational materials to assist and inspire students:

- To cultivate their minds to utmost capacity
- To become familiar with our cultural heritage
- To strive for excellence in creative expression in all fields of learning, literature, and art
- To seek effective ways to live a satisfying life
- To enlarge students' concern for and understanding of today's world
- To help build a society free of prejudice and hate and dedicated to the highest quality of life in community and nation

We strive to present the clearest explanation of current affairs and contemporary thought, and to encourage literary appreciation and expression consistent with the understanding and interests of young people at all levels of learning.

We believe in:

- The worth and dignity of each individual
- Respect for the diverse groups in our multicultural society
- The right of each individual to live in a wholesome environment and, equally, the personal responsibility of each individual to help gain and preserve a decent and healthful environment, beginning with informed care of one's own body and mind
- High moral and spiritual values
- The democratic way of life, with basic liberties—and responsibilities—for everyone
- Constitutional, representative government and evenhanded justice that maintain equality of rights for all people
- Responsible competitive enterprise and responsible labor, with opportunities for all
- Cooperation and understanding among all people for the peace of the world

We pledge ourselves to uphold the basic freedoms of all individuals; we are unalterably opposed to any system of government or society that denies these freedoms. We oppose discrimination of any kind on the basis of race, creed, color, sex, age, or national origin.

Good citizens may honestly differ on important public questions. We believe that all sides of the issues of our times should be fairly discussed—with deep respect for facts and logical thinking—in classroom magazines, books, and other educational materials used in schools and homes.



 SCHOLASTIC

Scholastic Corporation 557 Broadway New York, New York 10012
www.scholastic.com