



# SCHOLASTIC

FISCAL YEAR 2008 SHAREHOLDER LETTER | NEAL MANSER | J452 | DERVILLE | 05/19/09

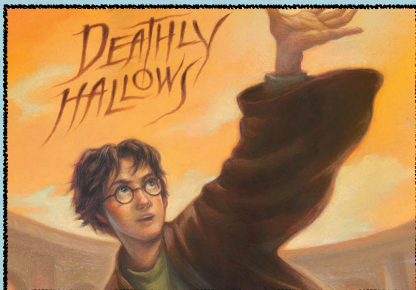
## Fellow stockholders,

All of us in America have been affected by the recent economic downturn. Every night of the week it seems the news is inundated with foreclosures, layoffs, plant closures and bankruptcies. Few companies and sectors have escaped the economic turmoil, yet Scholastic has experienced record sales in this mixed year.

Our financial performance has been strong. We had \$2.2 billion in total revenue in FY'08, an increase of nearly 15 percent. We've experienced strong operating income with \$206.7 million in the same period, representing a remarkable 42 percent increase. Due to our strategic repositioning, however, we had a \$17.2 million net loss in FY'08... continued on page 2



**“...nothing short of an international phenomenon.”**



Harry Potter and the Deathly Hallows



Scholastic READ 180 Program



Shanghai English Language Centers

## **“Scholastic is a name that people trust... they know the strength of our commitment to educational customers.”**

... This explains a \$0.44 net diluted loss per share. Our stock performance could have improved, but we believe the moves we have made will position us to be stronger moving forward.

We began FY'08 with the launch of “Harry Potter and the Deathly Hallows,” the finale in a series that has become nothing short of a international phenomenon. True to form, the title become the largest and fastest-selling book in history. With such a strong first quarter, we used the added liquidity to take steps to attain up to a 10 percent operating margin by FY'10. These actions have already proven strategically successful as the economy has experienced unprecedented further declines since they were taken.

The end of the Harry Potter series hasn't slowed down Scholastic forays into other avenues. We've launched a new e-commerce site with a strong parent component that is very promising. We're tackling long-time problems by doing things like rolling out credit card machines at book fairs and other point-of-sale locations. Most importantly though, we've completed development of System 44, a prequel to our READ 180 program. This program innovates with technological advancements in phonetics instruction and works with students, parents and teachers. It not only comes full

circle educationally, but economically as well. System 44 requires service, support, implementation, research and development – all things Scholastic is in place to assist with – for it to deliver expected results. Through this program, parents and educators will truly experience the benefit of having Scholastic as a partner in their fight.

No different than here in the U.S., Scholastic is pushing ahead on many endeavors abroad. We've expanded our Scholastic English Language Centers in Shanghai, the fastest-growing city in the fastest-growing nation. We've also rolled out Scholastic Book Clubs (English language) throughout China, a revenue outlet sure to grow in time with the growing trend of globalization only now beginning to make its mark on Chinese culture.

This fiscal year has brought record cash flow rates, completion of significant share repurchases, the announcement of a dividend program to return value to investors and the sale and announcement of intent to sell all of our direct-to-home continuities ventures in the U.S., U.K. and Canada. We are moving from an excellent fiscal year into a period of tough challenges, but we're positioned and prepared to weather the storm.

The future will bring new technologies and products into the Scholastic portfolio. We're moving toward having greater digital strategies even though 2008 was one of the greatest years for books in history. Redefining what reading is in the digital age is difficult, but as we push to increase our margins, we need to not forget successes: Scholastic is already the No. 1 online destination for teachers and the third-largest online book seller through COOL.

Scholastic is a name that people trust because they know the strength of our commitment to educational customers. We're going to meet children, parents and teachers where they want us to, be it in books, in person at book fairs or online. 2009 will be a challenging year, but we will still be growing and doing what we've always done – instilling a love of reading into children.

**Richard Robinson**  
Chairman, President and  
Chief Executive Officer