More than
100
years of
experience
in education
commerce

School Specialty

annual report 2000

Changes in education and the explosion of virtual learning environments has positioned the importance of clicks within the education market. For School Specialty over 100 years of practical experience working with schools and teachers provides us the unique opportunity to be the pre-eminent and dominant education commerce resource. At the heart of our organization is SERVICE and the growth driven by conscious consideration of the best resources for educators along with the most efficient processes. This continuous growth of resource and process has truly come full circle as products and technology can now converge and the education commerce solution will follow the leader... School Specialty.

How School Specialty Grows

As the largest and fastest-growing supplier of non-textbook education products in the U.S., School Specialty has become "The Nation's Education Resource". We achieved this leadership position by:

Offering name-brand products through our traditional, leading specialty, and Internet brands.

Providing one-stop shopping with more than 72,000 products for pre-kindergarten through 12th grade.

Using a multi-tiered marketing strategy our 300 plus direct sales force reaches 171,500 district officials and 200,000 administrators at more than 112,000 schools. We contact 3.1 million teachers across the country by mailing 13 million catalogs. We also use the Internet to reach these customers with the additional benefit of reaching consumers, such as parents and students.

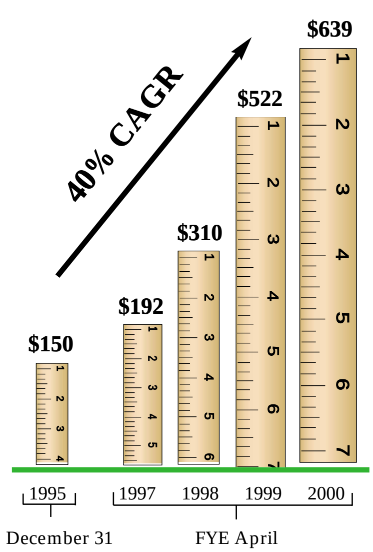
Acquiring companies that increase our present product offering and account penetration.

Brands	Products / Markets	Market Advantage	Milestones In 2000
School Specialty	•Comprehensive selection of classroom supplies, instructional materials, educational games, art supplies, school forms, educational software, physical education equipment, audio-visual equipment, school furniture, and indoor and outdoor equipment marketed to administrative decision makers	•Largest furniture resale source in the U.S. •Largest direct sales force in the market •Custom programs for supply fulfillment and project management	•Decreased the number of call centers from six to two •Integrated backroom operations and catalogs of two companies •Increased direct sales force by 12%
CHILDCRAFT® Education Corp.	•Early childhood education products and materials for pre-kindergarten through third grade	•Over 1,000 proprietary/exclusive products from Bird-in-Hand Woodworks (including classroom furniture and equipment) •Offers one of the largest percentages of proprietary products in the company	•Introduced *Classroom Designer*, an Internet tool which designs an early childhood center using Childcraft furniture •Invested $2 million in production facilities to increase capacity and improve production
Sax	•Art supplies and instructional materials, including paints, brushes, paper, art metals and glass, ceramics and crafts for beginner through professional artists	•Toll free Art Savvy Hotline staffed with professional artists •Most comprehensive art catalog in the industry	•Fully integrated into School Specialty s operating system •Significantly expanded sales force
frey scientific	•Laboratory supplies, equipment and furniture for science classrooms •Industrial arts/technical materials for classrooms	•Offers value-added focus in biology, chemistry, physics and earth science •Nation s oldest marketer of this product line	brodhead garrett
SPORTIME	•Physical therapy, recreation, and occupational therapy products as well as products for physically challenged children	•Creates over 50 new proprietary products annually •Sponsor of the National Physical Education Teacher of the Year Program	•Expanded branded product offering •Reduced the number of catalog titles to improve market focus
hs	•School forms, including student assignment books, grade books, teacher planners and other printed forms for kindergarten through 12th grade	•Offers one of the largest percentages of proprietary products in the company •Offers customization	•Invested $1 million to improve printing equipment
CLASSROOM DIRECT.COM	•Offers a line similar to School Specialty through a fully-integrated e-commerce website, supported by catalogs for teachers and curriculum specialists •Internet targets teachers plus home school families, churches, parents and consumers who want educational products	•Products are easy to order - and the format can speed reimbursement for teachers •A market leader •Dominant internet site designed to attract teachers and professionals	•Introduced *SmartMatch*: allows teachers to find out what others across the country are buying by subject and grade level •Introduced *SmartCart*: allows teachers to fill one or more carts, save the information while they get approval, then return to execute their orders
JuneBox.com	•Business-to-Business (B2B) exchange that features 72,000 educational products: 46,000 stocked at School Specialty and the balance shipped direct from manufacturers •Targeted at administrative decision makers	•First B2B offering in the education industry •Ease of ordering •Can search product categories for the best price	•Signed agreement with Ariba allowing the creation of an open business exchange giving vendors of all sizes access to schools •Began marketing effort to position site as *The* Education Commerce Solution •At year end, there were 2,400 vendors represented on the site, processing over $100,000 in orders per day

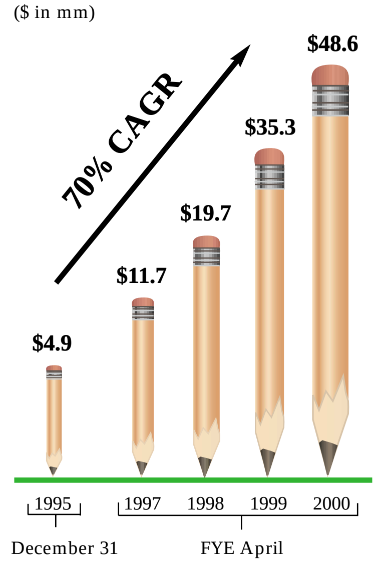
Financial Highlights
(In thousands, except per share amounts)

	2000	1999	% Change
Income Statement Data:			
Revenues	$ 639,271	$521,704	22.5 %
Gross Profit	233,228	179,921	29.6
Operating Income Before One-Time Charges	48,642	35,262	37.9
One-Time Charges	-	5,274	-
Net Income	18,515	8,896	108.1
Per Share Amounts:			
Basic	$ 1.06	$ 0 .61	73.8 %
Diluted	1.06	0 .60	76.7
Weighted Average Shares Outstanding:			
Basic	17,429	14,690	18.6 %
Diluted	17,480	14,840	17.8
Results Prior to One-Time Charges:			
Net Income	$ 18,515	$ 12,054	53.6 %
Per Share Amounts:			
Basic	$ 1.06	$ 0.82	29.3 %
Diluted	1.06	0.81	30.9
Balance Sheet Data			
Total Current Assets	$ 201,924	$189,046	
Total Assets	454,849	437,708	
Total Current Liabilities	84,906	73,193	
Long Term Debt	144,789	161,691	
Total Liabilities	229,856	235,021	
Stockholders' Equity	224,993	202,687	

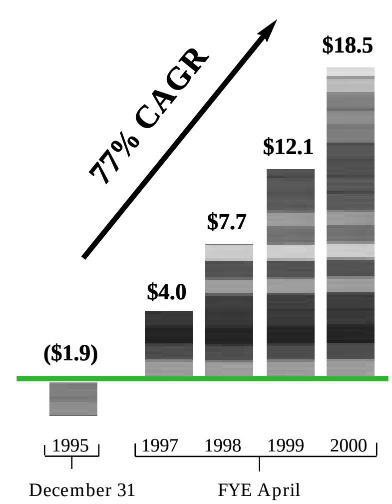
Revenues
($ in mm)



Operating Income
(prior to one-time charges)
($ in mm)



Net Income
(prior to one-time charges)
($ in mm)



To Our Stockholders:

Fiscal 2000 was a year of outstanding accomplishments. In absolute terms, we increased net income by 108.1% to $18.5 million on a revenue increase of 22.5% to $639.3 million. We were only able to accomplish these results with full participation from all of our associates and by having a solid focus on our strategic mission.

Dan Spalding
Chairman,
Chief Executive Officer

High tech teaching toys give young executives a chance to practice their telephone skills.

Mission Statement

We serve the educational community by providing quality products and services reliably, accurately and competitively.

We commit to the teamwork, professionalism and mutual trust and respect it takes to achieve absolute customer, associate and stockholder satisfaction.

We have and will continue to focus on the expectations of our partners.

For our customers - schools and educators throughout this country: we delivered an order fill rate of over 99% and implemented a new 24-hour delivery service. We added more than 7,000 new products, mailed 3 million more catalogs and expanded our field sales force.

For our dedicated associates: we expanded our incentive compensation program to cover nearly all School Specialty associates and are committed to conducting semi-annual associate satisfaction surveys.

For our stockholders: we are committed to solid financial performance with higher returns on investment. Even in this world of heavy investment in dot-coms and technology, we are not losing sight of the importance of positive cash flow.

Goal 1
Long-Term Revenue Growth:

Our goal is to achieve a $1 billion run rate in revenues by the end of fiscal 2002. While this is a significant challenge, our achievements in fiscal 2000 and our growth strategies put us on target to accomplish this goal.

Growth through Multi-Tiered Marketing Strategy

We reach school district officials and building administrators through our direct sales force. We reach teachers through the direct mailing of millions of catalogs. In addition, all of our customers have access to us through *ClassroomDirect.com* or *JuneBox.com*.

No one else in the industry can match the strength of our top-down, bottom-up marketing strategy. We believe it is a key ingredient in giving the company a 10% market share - four times larger than our closest competitor.

Growth through Product Development

Both our high-margin specialty brands and traditional products and services offer opportunities for growth.

We are especially committed to expanding our Specialty brands' proprietary products because they command margins 10-20% higher than other products.

SunPower KIDZ® is one example of a successful new proprietary specialty brand product. Offered by Sportime, these popular bean bag characters are used for physical education in grades K-6 to teach children how to throw and catch.

Growth through Acquisitions

Our acquisition strategy targets educational product companies that: hold a lead position in their markets, increase product breadth and market penetration while offering the potential for greater operating efficiencies, and are fully accretive after integration.

Once acquired, companies go through our rigorous integration process. This includes streamlining or discontinuing product lines, eliminating redundant SG&A, integrating MIS, enhancing buying power, improving balance sheet management, and consolidating distribution.

Growth through Internet Advantage

In fiscal 2000, we began our Internet initiative in earnest. We bring the strongest assets in the industry to our Internet initiative. Our relationships with over 3,500 vendors will be leveraged to serve our 16,000 school district customers in an electronic purchasing environment introduced to them by our 300 person sales force.

Progress in 2000

We took a number of steps during the year to increase our marketing effectiveness and efficiency:

- The direct sales force grew more than 10% to over 300 people at year end. No one else in the industry has a sales team this large or with this much experience.
- We mailed an additional 3 million catalogs during the year - featuring over 72,000 SKUs - for a total of 13 million catalogs.
- We exceeded our goal of 10% of revenues from proprietary products for the year.

Opportunities for 2001

In addition to capitalizing on our Internet opportunities, the following strategies will help further refine our approach to the market this year:

- We plan to increase our sales force by 15% to improve our market penetration.
- We will accelerate our cross-selling efforts among specialty brands.
- We will continue to develop proprietary products. This year, we will put a special focus on expanding offerings for middle and high school students.
- Our aggressive acquisition program will continue as we fill the gap between internal growth and our $1 billion revenue goal. We have the capital and management resources to make acquisitions in this highly fragmented industry. Our focus will be expanding product offerings and enhancing opportunities in neighboring countries.

Goal 2

Expanding Margins:

School Specialty's goal is to expand operating margins by 50 basis points a year with an ultimate target of achieving 10%.

Progress in 2000

At 7.6%, operating margins expanded by 85 basis points as a result of:

- Successfully integrating Beckley Cardy and School Specialty, including consolidating distribution and call centers across the country.
- Using one central processing system, which handles 77% of our transactions, and provides great economies of scale.
- Aggressively expanding proprietary products - particularly our specialty brand product offering which represented 40% of total revenues.

Opportunities for 2001

- We will upgrade our processing technology - including our recently installed data warehousing system - to further automate business processes and help increase return on investment.
- We will consolidate distribution centers. This includes merging the Sax Arts & Crafts distribution center into the Appleton, Wisconsin facility and moving Sportime's Atlanta, Georgia distribution center into our Mansfield, Ohio operation.

Goal 3

Cash Flow Equal to Net Income Plus Amortization:

School Specialty generated $31 million in cash from operations in fiscal 2000. We did this by focusing on managing our current assets as well as controlling capital expenditures.

Progress in 2000

We supported a 23% increase in revenues with only a 1% increase in working capital. We brought our debt to total capitalization ratio from 46% to 42%, preparing the balance sheet for the next growth opportunity.

Opportunities for 2001

We will reduce days' sales outstanding through our Internet initiatives and look at maximizing inventory turns through using more electronic transfer of information to our vendor partners.

David Vander Zanden
President,
Chief Operating Officer

Mary Kabacinski
Executive Vice President,
Chief Financial Officer

Goal 4
Internet Objective:

To be the pre-eminent and dominant e-commerce provider of educational materials to educators in the United States. We see the Internet as a convergence of technology that can be used to expand our reach to educators within school systems and further penetrate existing accounts.

The rules haven't changed- it's still about profits, operating costs, customer retention and competition.

Progress in 2000

- *ClassroomDirect.com* is the largest and fastest growing Internet initiative in our market place. We designed the site to be attractive to the teacher as a professional, including 1) low prices on our brand-name products, 2) value-added programs, such as software they can download, and 3) the ability to remember their orders while teachers are waiting for an approval to purchase.

- With the help of our technology provider, Ariba, *JuneBox .com* is evolving into a powerful business-to-business (B2B) exchange. *JuneBox* will help School Specialty reach beyond its original $6 billion market to serve the $84 billion total school spending market.

- The new technology enables *JuneBox* to automate and integrate the internal and external commerce processes for buyers, suppliers and value-added service providers. The technology Ariba brings will allow school districts to, electronically control teachers' discretionary spending, reduce district administrative costs for and increase their control of product purchases, and benefit from volume purchasing. Vendors like *JuneBox* because 1) it can highlight their full product/service line, 2) it reduces their order cycles by up to 70%, 3) it increases the efficiency of their order processing, and 4) it gives them proprietary information about the customers who purchase their products.

Strategies for 2001

When we developed the Internet division in 1999, it had a run rate of less than $1 million. Today, it has become the fastest growing segment of our business. As we watch revenues shoot up each quarter - 400% between the third and fourth quarters of fiscal 2000 - we set the goal of $30 million in revenues for fiscal 2001. The following strategies should help us reach this target:

- We will add more proprietary branded products to *ClassroomDirect*.
- We will benefit from the marketing program put in place earlier in 2000, which offered product discounts and successfully encouraged teachers to try *ClassroomDirect*.
- We will roll out the new *JuneBox* site, powered by Ariba, in summer 2000. This will enable us to be a true *exchange*, connecting vendors and schools directly.
- We will add new vendors to *JuneBox*, which will increase the royalty fees - and, in some cases, order processing fees we receive.
- We will leverage our sales force, brands, catalogs and vast customer base to continue this accelerated growth in Internet business.

Think inside the box... JuneBox

Summary
Outlook for a Strong 2001:

This is a particularly good time to be in our industry. In this election year, strengthening education has become the #1 political issue. New student enrollment is expected to reach 500,000. Expenditures per student should rise 5%. All of these factors lead to recession resistance.

Positive market forces, combined with our growth goals and the strategies for achieving them, should bring record revenues for School Specialty in fiscal 2001. This should keep us on track to achieve our objective of a $1 billion run rate in revenues by the end of fiscal 2002.

To ensure we maintain our market leadership - and that future growth will be more profitable - requires that we invest in our Internet division. In the near term it may seem that we are spending this money on initiatives that cannibalize our existing customer base. Don't be fooled. We believe it will not be long before e-commerce becomes the preferred way to purchase products and services - and if we are not there first, some *other* company will cannibalize our customers.

We strongly believe the winning business model of the future will be developed by the companies that can fully integrate the traditions of the "bricks" economy with the strategies and technologies of those in the "clicks" economy. Through their extraordinary efforts this past year, our 2,400 associates have proven they can do this.

We greatly appreciate the continued support of our customers, associates, suppliers, and stockholders.

We are glad to have you on our team at this exciting time.

Dan Spalding
Chairman,
Chief Executive Officer

David Vander Zanden
President,
Chief Operating Officer

School Specialty, Inc.
July 24, 2000

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 April 29, 2000

OR

[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

Commission File No. 000-24385

SCHOOL SPECIALTY, INC.
(Exact name of Registrant as specified in its charter)

Delaware (State or other jurisdiction of incorporation or organization)	**39-0971239** (I.R.S. Employer Identification No.)
1000 North Bluemound Drive **Appleton, Wisconsin** (Address of principal executive offices)	**54914** (Zip Code)

Registrant's telephone number, including area code: **(920) 734-5712**

Securities registered pursuant to Section 12(b) of the Act: **None**

Securities registered pursuant to Section 12(g) of the Act:

Common Stock, $.001 par value
(Title of class)

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 ✓ No __

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

The aggregate market value of the voting stock held by nonaffiliates of the Registrant, as of July 1, 2000, was approximately $314,659,898. As of such date, there were 17,464,505 of the Registrant's shares of common stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Part III is incorporated by reference from the Proxy Statement for the Annual Meeting of Stockholders to be held on August 29, 2000.

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PART I

Item 1. Business

Unless the context requires otherwise, all references to "School Specialty," "we" or "our" refer to School Specialty, Inc. and its subsidiaries. Our fiscal year ends on the last Saturday in April in each year. In this Annual Report on Form 10-K ("Annual Report"), we refer to fiscal years by reference to the calendar year in which they end (e.g. the fiscal year ended April 29, 2000 is referred to as "fiscal 2000"). Note that fiscal 2000 had 53 weeks, while all other fiscal years reported and referenced represent 52 weeks.

Overview

School Specialty is the largest marketer of non-textbook educational supplies and furniture to schools for pre-kindergarten through twelfth grade. We offer more than 72,000 items through an innovative two-pronged marketing approach that targets both school administrators and individual teachers. Our broad product range enables us to provide our customers with one source for virtually all of their non-textbook school supplies and furniture needs.

We have grown significantly in recent years through internal growth and acquisitions. For the fiscal year ended April 29, 2000, our revenues were $639.3 million and our operating income was $48.6 million, a 38% increase over fiscal 1999.

Our "top down" marketing approach targets school administrators at the state, regional and local levels using our network of over 300 sales representatives and our School Specialty general supply and furniture catalogs. Our "bottom up" approach seeks to reach individual teachers and curriculum specialists primarily through the mailing of our *ClassroomDirect.com* general supply catalog and our seven different specialty catalogs. In January 2000, we mailed over 13 million catalogs to more than three million teachers and curriculum specialists.

We also use the Internet to market and sell our products, building on the proven two-pronged marketing approach. *"ClassroomDirect.com"* is a fully integrated e-commerce website targeted to teachers and offering over 13,000 items for sale. *"JuneBox.com"* offers one-stop shopping for all of School Specialty's products on-line and also provides a community forum and content aimed at educators. In the summer of 2000, *JuneBox.com* will be open to unrelated vendors creating a purchasing portal for schools.

School Specialty was incorporated as a wholly owned subsidiary by U.S. Office Products in Delaware in February 1998 to hold its Educational Supplies and Products Division. The predecessor to this business was incorporated in 1959 and acquired by U.S. Office Products in 1996. In June, 1998, U.S. Office Products distributed to its shareholders all of the Common Stock of School Specialty in a "spin-off" transaction. At the same time as this spin-off, School Specialty sold 2,375,000 shares of Common Stock in an initial public offering and a concurrent offering to several of its officers and directors. On April 16, 1999, School Specialty sold 2,400,000 shares of Common Stock in a secondary public offering, and sold an additional 151,410 shares on May 17, 1999 to cover over-allotments. Our Common Stock is listed on the Nasdaq National Market under the symbol "SCHS." Our principal offices are located at 1000 North Bluemound Drive, Appleton, Wisconsin 54914, and our telephone number is (920) 734-2756. Our world wide general website address is *www.schoolspecialty.com*. Information contained in any of our websites is not deemed to be a part of this Annual Report.

Industry Overview

The school supply market consists of the sale of non-textbook school supplies, furniture and equipment to school districts, individual schools, teachers and curriculum specialists who purchase products for school and classroom use. The National School Supply Equipment Association estimates that annual sales of non-textbook educational supplies and equipment to the school supply market are approximately $6.1 billion. Of this amount, over $3.6 billion is sold through institutional channels and the remaining $2.5 billion is sold through retail channels.

According to the U.S. Department of Education, there are approximately 16,000 school districts, 110,000 public and private elementary and secondary schools and 3.1 million teachers in the United States. School supply procurement decisions are made at the school district level by administrators and curriculum specialists, at the school building level by principals and at the classroom level by teachers. Some school supplies are purchased directly from manufacturers while others are purchased through marketing firms such as us. We estimate that there are over 3,400 marketers of non-textbook school supplies and equipment, the majority of which are family or employee owned businesses that operate in a single geographic region and have annual revenues under $20 million. We believe that the increasing demand for single source suppliers, prompt order fulfillment and competitive prices, and the related need for suppliers to invest in automated inventory and electronic ordering systems, is accelerating the trend toward consolidation in our industry.

The demand for school supplies is driven primarily by the level of the student population and, to a lesser extent, expenditures per student. Student population is a function of demographics, while expenditures per student are also affected by government budgets and the prevailing political and social attitudes towards education. According to U.S. Department of Education estimates, student enrollment in kindergarten through twelfth grade public and private schools began growing in 1986, reaching a record level of nearly 53 million students in 1998. Current projections by the U.S. Department of Education indicate that student enrollment will continue to grow to nearly 55 million within three years. The U.S. Department of Education also projects that expenditures per student in public elementary and secondary schools will continue to rise. Expenditures of $272 billion in 1997 are projected to increase to $341 billion by the year 2001. These projected increases in expenditures include a projected increase in total per student spending from $5,961 per student in 1997 to $7,179 by the year 2001. We believe that the current political and social environment is favorable for education spending.

Recent Acquisitions

Audio Graphic Systems. In May, 1999, we acquired Audio Graphic Systems (Audio Graphics). Audio Graphics is a business that specializes in the sale of audio-visual equipment to schools. We paid $2.4 million for Audio Graphics, of which $1.2 million was paid in cash and $1.2 million in shares of Common Stock (an aggregate of 57,151shares were issued). The cash portion of the purchase price was financed through borrowings under our credit facility. During calendar 1999, Audio Graphics had revenues of approximately $13 million.

Internet Initiative

Because more schools and teachers are connecting to the Internet, we have aggressively pursued sales opportunities through this rapidly growing channel. By establishing an early presence on the Internet, we believe we have gained a significant competitive advantage and valuable brand recognition. Our goal is to become the leading marketer of school supplies and furniture over the Internet. This may also permit us to expand our customer base over time to include individuals and other non-traditional customers.

In January 1999, we launched the first phase of our Internet initiative with the opening of our fully integrated e-commerce website *ClassroomDirect.com*. The site offers access to over 13,000 stock keeping units with digital pictures of most items. Although currently teacher focused, the site could be adapted to a more consumer based format. In February 2000, we signed an agreement with America Online, Inc. (AOL) for placement in the Shop@AOL on-line shopping destination with the goal to increase visibility with both teachers and consumers. The increasing demand by school administrators and teachers for more information in making supply decisions, the lack of a wide variety of educational products in stores and the growing importance of convenience make the Internet a viable, low cost channel for the marketing of education supplies.

The second phase of our Internet initiative, launched in August 1999, *JuneBox.com*, offers an education portal on the Internet. This portal is structured as an education mall offering our products for sale and also provides a community forum and content aimed at educators. We believe that by providing education related content and information, this portal will place us at the education community's decision point for supply and content which will strengthen our brands. In March 2000 we signed an agreement with Ariba, Inc., one of the world's leading providers of business-to-business e-commerce solutions, to power *JuneBox.com* and facilitate the e-commerce marketplace for the procurement of school materials. This site will eventually be expanded to include additional vendors offering one-stop on-line shopping for all products purchased by schools and will also provide a community forum educators can visit to find teaching tips, lesson plan help, product reviews and updates on current events affecting the education market.

Strengths

We attribute our strong competitive position to the following key attributes:

Leading Market Position. We have developed our leading market position by emphasizing high quality products, superior order fulfillment and exceptional customer service. We believe that our large size and brand recognition have resulted in significant buying power, economies of scale and customer loyalty.

Broad Product Line. Our strategy is to provide a full range of high quality products to meet the complete supply needs of schools for pre-kindergarten through twelfth grade. With over 72,000 stock keeping units ranging from classroom supplies and furniture to playground equipment, we provide customers with one source for virtually all of their non-textbook school supply and furniture needs. Our specialty brands enrich our general product offering and create opportunities to cross merchandise our specialty products to our traditional customers. Specialty brands include the following:

Brand	Products
Childcraft	Early childhood
Sax Arts and Crafts	Art supplies
Frey Scientific	Science
Sportime	Physical education
Brodhead Garrett	Industrial arts
Gresswell	Library
Hammond & Stephens	School forms
SmartStuff	Software

Innovative Two-Pronged Marketing Approach. School supply procurement decisions are made at the district and school levels by administrators, and at the classroom level by curriculum specialists and teachers. We market to both of these groups, addressing administrative decision makers with a "top down" approach through our 300 person sales force and the School Specialty general supply and furniture catalogs, and targeting teachers and curriculum specialists with a "bottom up" approach primarily through the mailing of *ClassroomDirect.com* general supply catalogs and our seven different specialty catalogs to over three million teachers each year. We utilize our customer database across our family of catalogs to maximize their effectiveness and increase our marketing reach.

Internet Offering. Our primary e-commerce sites, *JuneBox.com* for administrative purchase decisions and *ClassroomDirect.com* for teacher-based decisions, establish an early yet comprehensive presence on the Internet which, we believe, will be a significant competitive advantage.

Stable Industry. Because the market for educational supplies is driven primarily by demographics and government spending, we believe that our industry is less exposed to economic cycles than many others.

Ability to Complete and Integrate Acquisitions. We have successfully completed over 20 acquisitions of companies since May 1996. We have established a 12-month integration process in which a transition team is assigned to:

- sell or discontinue incompatible business units,
- reduce the number of stock keeping units,
- eliminate redundant expenses,
- integrate the acquired entity's management information systems, and
- exploit buying power.

To date, our integration efforts have focused on acquired traditional companies and certain administrative and warehousing functions at our specialty divisions. We believe that through these processes, we can rapidly improve the operating margins of the businesses we acquire.

Use of Technology. We believe that our use of information technology systems allows us to turn inventory more quickly than our competitors, offer customers more convenient and cost effective ways of ordering products and more precisely focus our sales and marketing campaigns.

Experienced and Incentivised Management. Our management team provides depth and continuity of experience. In addition, management's interests are aligned with those of our stockholders, as many members of management own shares of our Common Stock and/or have been granted options to purchase such Common Stock.

Growth Strategy

We use the following strategies to grow and enhance our position as the leading marketer of non-textbook educational supplies and furniture:

Increase Revenues of Specialty and Proprietary Products. We believe we can increase our margins by selling more specialty products and products for which we are the only supplier. Specialty products accounted for approximately 40% of our revenues in fiscal 2000, compared to approximately 35% in fiscal 1999.

Expand Existing Traditional Business. We believe that we can also increase the revenues of our traditional business by adding sales representatives in geographic markets in which we are underrepresented and by cross merchandising our specialty products to our traditional customers. During the September to December 1999 recruiting season, we added approximately 25 sales representatives to select geographic locations to improve market penetration.

Leverage the Internet Channel. Because more schools and teachers are connecting to the Internet, we are aggressively pursuing sales opportunities through this rapidly growing channel. By establishing an early presence on the Internet, we believe we can gain a significant competitive advantage and valuable brand recognition. Our goal is to become the leading marketer of school supplies and furniture over the Internet. This may also permit us to expand our customer base over time to include individuals and other non-traditional customers. We believe this strategy can be effective both as an offensive tool, enhancing revenue at a low incremental cost, and as a defensive one, by preventing other existing and prospective Internet competitors from establishing themselves in this market. The establishment of early brand recognition will facilitate the establishment of our educational portal as the key education related website.

Pursue Acquisitions. We believe that there are many attractive acquisition opportunities in our highly fragmented industry. As a public company, we have greater access to capital for acquisitions than many of our competitors. We will continue to pursue opportunities that complement our specialty product offerings.

Improve Profitability. We improved our operating margin (as measured by our operating income before non-recurring acquisition and restructuring costs divided by our revenues) from 3.2% in 1995 to 7.6% in fiscal 2000. We believe that we can further improve our operating margins in the traditional and specialty segments by eliminating redundant expenses of acquired businesses, leveraging our overhead costs, increasing our purchasing power and improving the efficiency of our warehousing and distribution.

Product Lines

We market two broad categories of products: general school supplies and specialty products geared towards specific educational disciplines. Our general school supply products are offered to school administrators by our sales force through our School Specialty catalog and to teachers and curriculum specialists through direct mailings of our *ClassroomDirect.com* catalog. Our specialty products are offered to teachers and curriculum specialists through direct mailings of our seven specialty catalogs. Our specialty products enrich our general supply product offering and create opportunities to cross merchandise our specialty products to our traditional customers. With over 72,000 stock keeping units ranging from classroom supplies and furniture to playground equipment, we provide customers with one source for virtually all of their non-textbook school supply and furniture needs.

Our general school supply product lines can be described as follows:

School Specialty. Through the School Specialty catalog, which is targeted to administrative decision makers, we offer a comprehensive selection of classroom supplies, instructional materials, educational games, art supplies, school forms (such as reports, planners and academic calendars), educational software, physical education equipment, audio-visual equipment, school furniture and indoor and outdoor equipment. We believe we are the largest school furniture resale source in the United States. We have been granted exclusive franchises for certain furniture lines in specific territories and we enjoy significant purchasing power in open furniture lines. We enhance our furniture offering with a custom design and contract management service called Projects by Design. Projects by Design is a rapidly growing segment of our traditional business.

ClassroomDirect.com. ClassroomDirect.com offers its customers substantially the same products as those offered through the School Specialty catalog but focuses on reaching teachers and curriculum specialists directly through its mail-order catalogs and fully integrated Internet e-commerce website. The Internet site targets the traditional catalog market and other consumers interested in educational products, such as home school families, churches and parents.

Our specialty brands offer product lines for specific educational disciplines, as follows:

Childcraft. Childcraft markets early childhood education products and materials. Childcraft also markets over 1,000 proprietary or exclusive products manufactured by its Bird-in-Hand Woodworks subsidiary, including wood classroom furniture and equipment such as library shelving, cubbies, easels, desks and play vehicles.

Sax Arts and Crafts. Sax Arts and Crafts is a leading marketer of art supplies and art instruction materials, including paints, brushes, paper, ceramics, art metals and glass, leather and wood crafts. Sax Arts and Crafts offers customers a toll free “Art Savvy Hotline” staffed with professional artists to respond to customer questions.

Frey Scientific. Frey Scientific is a leading marketer of laboratory supplies, equipment and furniture for science classrooms. Frey Scientific offers value added focus in the biology, chemistry, physics and earth science areas.

Sportime. Sportime is a leading marketer of physical education, athletic and recreational products. Sportime’s catalog product offering includes catalogs from early childhood through middle school as well as targeted products for physically challenged children.

Brodhead Garrett. Brodhead Garrett is the nation’s oldest marketer of industrial arts/technical materials to classrooms. Brodhead Garrett’s product line includes such various items as drill presses, sand paper, lathes and robotic controlled arms.

Gresswell. Gresswell markets library-related products in the U.K., including furniture, and media display and storage. Gresswell’s dedicated sales and design team helps customers plan, design and install library projects using computer assisted design equipment.

Hammond & Stephens. Hammond & Stephens is a leading publisher of school forms, including student assignment books, record books, grade books, teacher planners and other printed forms for kindergarten through twelfth grade.

SmartStuff. SmartStuff is the developer of FoolProof® Internet, a comprehensive Internet security and web management solution for schools and FoolProof® security software, a desktop software security program which limits access by children to selected programs and applications on desktop computers.

Our merchandising managers, many of whom have prior experience in education, continually review and update the product lines for each operating division. The merchandising managers convene customer focus groups and advisory panels to determine whether current offerings are well-received and to anticipate future demand. The merchandising managers also travel to product fairs and conventions seeking out new product lines. This annual review process results in an organic reshaping and expansion of the educational materials we offer.

Sales and Marketing

Our Two-Pronged Approach. We believe we have developed a substantially different sales and marketing model from that of traditional school supply and school furnishings marketing companies in the United States. Our strategy is to use two separate marketing approaches ("top down" and "bottom up") to reach all the prospective purchasers in the school system.

Traditional Business. Our national marketing model has over 300 sales representatives operating within 17 regions supported by regional managers and two regional customer service and sales support call centers. We believe our national structure provides for effective sales management, resulting in higher regional penetration, and achieves significant cost savings through focused distribution and call centers.

We have a broad customer base and no single customer accounted for more than 2% of sales during fiscal 2000, 1999 and 1998. Schools typically purchase school supplies and furniture based on an established relationship with relatively few suppliers. We establish and maintain our relationship with our traditional customers by assigning accounts within a specific geographic territory to a local area sales representative who is supported by a centrally located customer service team. Our customer service representatives call on existing traditional customers frequently to ascertain and fulfill their school supply needs. The representatives maintain contact with these customers throughout the order cycle and assist in processing orders.

Our primary compensation program for sales representatives is based on commissions as a percentage of gross profit on sales. For new and transitioning sales representatives, we offer salary and expense reimbursement until the representative is moved to a full commission compensation structure.

Specialty Business. We generally use direct mail catalogs to reach our broader customer base. We distribute seven major specialty catalogs, one for each of our Childcraft, Sax Arts and Crafts, Frey Scientific, Sportime, Brodhead Garrett, Gresswell and Hammond & Stephens lines. For each product line, a major catalog containing all product offerings is distributed toward the end of the calendar year so that it is available for school buyers at the beginning of the year. During the year, various catalog supplements are distributed to coincide with the peak school buying season in June through September and following the start of school in the fall. Our SmartStuff brand uses a combination of marketing brochures, outside field sales and telemarketing to reach its customer base.

Internet Business. We offer two e-commerce sites, *JuneBox.com* and *ClassroomDirect.com* to facilitate on-line purchases and shorten the order cycle for administrators and teachers. Both traditional and specialty products are available on these sites.

Pricing. Pricing for our general and specialty product offerings varies by product and market channel. We generally offer a negotiated discount from catalog prices for supplies from our School Specialty catalog and respond to quote and bid requests. The pricing structure of specialty products offered through direct marketing is generally not subject to negotiation.

Distribution

We aggregate and distribute products through seven primary distribution centers (DCs). Each DC has specific primary and back-up geographic responsibility and carries all traditional stock items. The distribution system is designed to minimize split shipments and freight charges as well as manage seasonal peaks.

Purchasing and Inventory Management

We manage our inventory by continually reviewing daily inventory levels compared to a running 90-day inventory for the previous year, adjusted for incoming orders. We constantly refine the focus of inventory products through our automated inventory management system to pursue the optimum level of scope and depth of product offered. Inventory forecasts are made daily for all stock keeping units by assessing anticipated demand by adjusting historical demand levels to account for current order activity and available stock as well as the expected lead time from the supplier. The forecast allows inventory purchases to respond quickly to high seasonal demand while keeping off-season inventory to a minimum. The information systems for all of our distribution centers are connected to allow transfer of inventory between facilities to fill regional demand. In addition, all orders can be redirected to the distribution center which is the primary stocking location for a product. Our inventory management results in inventory turnover that management believes is higher than average industry turnover rates and reduces the level of discontinued, excess and obsolete inventory compared to businesses that we have acquired.

We believe our large size enhances our purchasing power with suppliers resulting in lower product costs than most of our competitors. Further, we believe that this purchasing power leverage will increase with additional acquisitions which, in turn, should improve our operating margins.

We believe that the primary determinants of customer satisfaction in the educational supply industry are the completeness and accuracy of shipments received and the timeliness of delivery. We continue to invest in sophisticated computer systems to automate the order taking, inventory allocation and management, and order shipment processes. As a result, we have been able to provide superior order fulfillment to our customers. In addition, we have developed an order management system, JuneBox Off-Line, which allows schools to customize their orders and enter them electronically and provides historical usage reports to schools useful for their budgeting process. While this system currently only accounts for approximately 6% of our traditional supply sales, we believe it will become more significant as schools upgrade their technology and use of computers. During the academic year, we seek to fill orders within 24 hours of receipt of the order at a 95% fill rate and a 99.5% order accuracy rate. During the summer months, we shift to a production environment and schedule shipments to coincide with the start of the school year. During the summer months our objectives are to meet a 100% fill rate at a 99.5% order accuracy rate. Our average order fill rate for June, July and August 1999 exceeded 98%. We define "fill rate" as the percentage of line items in a customer's order that are initially shipped to the customer in response to the order by the requested ship date.

During the peak shipping season between June 1 and September 30, each of our distribution centers contracts with local common carriers to deliver our product to schools and school warehouses. *ClassroomDirect.com* and Sax Arts and Crafts rely on carriers such as Roadway Package Service, United Parcel Service and the U.S. Postal Service for distribution to customers.

Information Systems

We believe that through the utilization of technology in areas such as (1) purchasing and inventory management, (2) customer order fulfillment and (3) database management, we are able to turn inventory more quickly than competitors, offer customers more convenient and cost effective ways of ordering products and more precisely focus our sales and marketing campaigns.

We use two principal information systems. In the traditional and certain specialty businesses, we use a specialized distribution software package used primarily by office products and paper marketers. This software package is referred to as the Software for Distributors System (the "SFD system"). This software offers a fully integrated process from sales order entry through customer invoicing, and inventory requirements planning through accounts payable. Our system provides information through daily automatic posting to the general ledger and integrated inventory control. We have made numerous enhancements to this process that allow greater flexibility in addressing the seasonal requirements of the industry and meeting specific customer needs.

The remaining specialty divisions use a mail order and catalog system provided by Smith-Gardner & Associates. The Mail-Order and Catalog System ("MACS") meets the unique needs of the direct marketing approach with extensive list management and tracking of multiple marketing efforts. The system provides complete and integrated order processing, inventory control, warehouse management and financial applications.

Our software and hardware allow for continued incremental growth as well as the opportunity to integrate new client-server and other technologies into the information systems.

Competition

We operate in a highly competitive environment. The market is especially competitive on a regional basis, but we believe our heaviest competition is coming from alternate channel competitors such as office product contract stationers and superstores. Their primary advantages over us are size, location, greater financial resources and buying power. Their primary disadvantage is that their product mix covers only 15% to 20% of the school's needs (measured by volume). In addition, our competitors do not offer special order fulfillment software, which we believe is increasingly important to adequately service school needs. We believe we compete favorably with these companies on the basis of service and product offering.

Employees

As of July 1, 2000, we had approximately 2,400 full-time employees. To meet the seasonal demands of our customers, we employ many seasonal employees during the late spring and summer seasons. Historically, we have been able to meet our requirements for seasonal employment. As of July 1, 2000, approximately 35 full-time employees were members of the Teamsters Labor Union at our Sax Arts and Crafts' New Berlin, Wisconsin facility. We consider our relations with our employees to be very good.

Forward-Looking Statements

Statements in this Annual Report which are not strictly historical are "forward-looking" statements. In accordance with the Private Securities Litigation Reform Act of 1995, we can obtain a "safe-harbor" for forward-looking statements by identifying those statements and by accompanying those statements with cautionary statements which identify factors that could cause actual results to differ materially from those in the forward-looking statements. Accordingly, the following information contains or may contain forward-looking statements: (1) information included or incorporated by reference in this Annual Report, including, without limitation, statements made under Item 1, Business and Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations, including, without limitation, statements with respect to growth plans and projected revenues, operating profits, earnings and costs; (2) information included or incorporated by reference in our future filings with the Securities and Exchange Commission including, without limitation, statements with respect to growth plans and projected revenues, operating profits, earnings and costs; and (3) information contained in written material, releases and oral statements issued by, or on behalf of, School Specialty including, without limitation, statements with respect to growth plans and projected revenues, operating profits, earnings and costs. Our actual results may differ materially from those contained in the forward-looking statements identified above. Factors which may cause such a difference to occur include, but are not limited to, the following:

Potential Liabilities Related to Spin-Offs. We became a public company in June 1998 when U.S. Office Products distributed all of our shares and the shares of three other companies to its shareholders and we sold additional shares of our stock in a public offering. In connection with these distributions (known as the "spin-offs"), we and the other three companies whose shares were distributed each agreed with U.S. Office Products that if any of us took any action or failed to act in a way that materially caused the distributions to be taxable, then U.S. Office Products could require any of us to pay to it the full amount of the tax losses it suffered as a result of the distributions. We and the three other spin-off companies also agreed that if the distributions became taxable for any other reason, we would each pay to U.S. Office Products a portion of its tax losses based on the relative aggregate value of each company's common stock immediately after the distributions. We also agreed with the other three spin-off companies that if one or more of us materially caused the distributions to be taxable and any of the other companies were required to pay tax losses under the agreement to U.S. Office Products, then the company or companies that materially caused the distributions to be taxable would reimburse the other companies for such payments.

In addition, we and the other three spin-off companies each agreed with U.S. Office Products to pay a portion of the securities law and general liabilities of U.S. Office Products arising prior to the distributions and, if any of the spin-off companies fails to pay its portion, to pay a portion of the unpaid amount. The maximum aggregate amount we can be required to pay for all shared liabilities is limited by the agreement to $1.75 million (including as a result of defaults by the other spin-off companies). U.S. Office Products has been named as a defendant in various class action lawsuits relating to the distributions that allege, among other things, violations of the federal securities laws.

Material Amount of Goodwill. Approximately $192.7 million, or 42%, of our total assets as of April 29, 2000 represents intangible assets, the significant majority of which is goodwill. Goodwill is the amount by which the costs of an acquisition accounted for using the purchase method exceeds the fair value of the net assets we acquire. We are required to record goodwill as an intangible asset on our balance sheet and to amortize it over a period of years. We generally amortize goodwill for each acquisition on a straight line method over a period of 40 years. Even though it reduces our net income for accounting purposes, amortization of goodwill may not be deductible for tax purposes. In addition, we are required to periodically evaluate whether we can recover our remaining goodwill from the undiscounted future cash flows that we expect to receive from the operations of the acquired companies. If these undiscounted future cash flows are less than the carrying value of the associated goodwill, the goodwill is impaired and we must reduce the carrying value of the goodwill to equal the discounted future cash flows and take the amount of the reduction as a charge against our income. Reductions in our net income caused by the amortization or write down of goodwill could materially adversely affect our results of operations.

Dependence on Growth of Student Population and School Expenditures. Our growth strategy and profitability also depend on growth in the student population and expenditures per student in public and private elementary and secondary schools. The level of student enrollment is largely a function of demographics, while expenditures per student are also affected by government budgets and the prevailing political and social attitudes towards education. Any significant and sustained decline in student enrollment and/or expenditures per student could have a material adverse effect on our business, financial condition and results of operations.

Seasonality of Our Business. Our educational supply businesses are highly seasonal. Because most of our customers want their school supplies delivered before or shortly after the commencement of the school year, we make most of our sales from May to October. As a result, we usually earn more than 100% of our annual net income in the first six months of our fiscal year and operate at a loss in our third and fourth fiscal quarters. This seasonality causes our operating results to vary considerably from quarter to quarter.

Dependence on Key Suppliers and Service Providers. We depend upon a limited number of suppliers for some of our products, especially furniture. We also depend upon a limited number of service providers for the delivery of our products. If these suppliers or service providers are unable to provide the products or services that we require or materially increase their costs (especially during our peak season of June through September), this could impair our ability to deliver our products on a timely and profitable basis and could have a material adverse effect on our business, financial condition and results of operations. As we seek to reduce the number of our suppliers and to minimize duplicative lines as part of our business strategy, we are likely to increase our dependence on remaining vendors.

Reliance on Key Personnel. Our business depends to a large extent on the abilities and continued efforts of current executive officers and senior management, including Daniel P. Spalding, our Chief Executive Officer. We are also likely to depend heavily on the executive officers and senior management of businesses that we acquire in the future. If any of these people become unable or unwilling to continue in his or her present role, or if we are unable to attract and retain other qualified employees, our business could be adversely affected. Although we have employment contracts with most executive officers, we do not have employment agreements with our senior management. We do not have and do not intend to obtain key man life insurance covering any of our executive officers or other members of senior management.

Competition. The market for school supplies is highly competitive and fragmented. We estimate that over 3,400 companies market educational materials to schools for pre-kindergarten through twelfth grade as a primary focus of their business. We also face increasing competition from alternate channel marketers, including superstores and office product contract stationers, that have not traditionally focused on marketing school supplies. These competitors are likely to continue to expand their product lines and interest in school supplies. Some of these competitors have greater financial resources and buying power than we do. We believe that the educational supplies market will consolidate over the next several years, which is likely to increase competition in our markets and in our search for attractive acquisition candidates.

Dependence on Our Systems. We believe that one of our competitive advantages is our information systems, including our proprietary PC-based customer order management system, JuneBox Off-Line. We have integrated the operations of almost all of our divisions and subsidiaries and their information systems are linked to host systems located at our headquarters in Appleton, Wisconsin and at two other locations. If any of these links disrupted or become unavailable, this could materially and adversely affect our business, results of operations and financial condition.

Several of our recently-acquired divisions and/or subsidiaries as well as Gresswell (our U.K. subsidiary) use predecessor information systems. With the exception of Gresswell, we intend to convert the information systems of these businesses to one of our host systems as soon as practicable. However, none of these businesses has a backup computer system or backup extra communication lines. Even though we have taken precautions to protect ourselves from events that could interrupt the operations of these businesses and intend to do so for other businesses we acquire in the future, we cannot be sure that a fire, flood or other natural disaster affecting their systems would not disable the system or prevent the system from communicating with our other businesses. The occurrence of any of these events could have a material adverse effect on our results of operations and financial condition.

Absence of Dividends. We do not expect to pay cash dividends on our Common Stock in the foreseeable future. In addition, our ability to pay dividends may be restricted from time to time by the financial covenants contained in our credit agreements and debt instruments. Our current credit facility contains restrictions on, and in some circumstances may prevent, our payment of dividends.

Leverage. As of April 29, 2000, we had $161.9 million of bank debt outstanding. In addition, our leverage could increase over time. Our credit facility permits us to incur additional debt under certain circumstances and we expect to borrow under our credit facility for general corporate purposes, including working capital and for acquisitions.

Our ability to meet our debt service obligations depends on our future performance. Our future performance is influenced by general economic conditions and by financial, business and other factors affecting our operations, many of which are beyond our control. If we are unable to service our debt, we may have to delay our acquisition program, sell our equity securities, sell our assets, or restructure and refinance our debt.

We cannot give our stockholders any assurance that, if we are unable to service our debt, it is likely to have a material adverse effect on the company.

Item 2. Properties

Our corporate headquarters are located in an owned facility at 1000 North Bluemound Drive, Appleton, Wisconsin, a combined office and warehouse facility of approximately 120,000 square feet. We lease or own the following principal facilities:

Locations	Approximate Square Footage	Owned/ Leased	Lease Expiration
Agawam, Massachusetts	163,300	Owned	—
Atlanta, Georgia	77,000	Leased	January 6, 2002
Birmingham, Alabama	180,365	Leased	November 30, 2006
Bowling Green, Kentucky	42,000	Leased	June 30, 2001
Fremont, Nebraska	95,000	Leased	June 30, 2003
Fresno, California	163,200	Leased	November 1, 2009
Hoddesdon, England	47,500	Leased	September 24, 2006
Lancaster, Pennsylvania	73,000	Leased	December 31, 2002
Lancaster, Pennsylvania	204,000	Leased	February 28, 2009
Lufkin, Texas	140,000	Owned	—
Mansfield, Ohio	323,000	Owned	—
New Berlin, Wisconsin	97,500	Leased	March 31, 2002
Salina, Kansas	123,000	Owned	—

The 73,000 square foot Lancaster, Pennsylvania facility is used for manufacturing and the Fremont, Nebraska facility is used for production of school forms.

We believe that our properties, as enhanced for our ongoing expansion, are adequate to support our operations for the foreseeable future. We regularly review the utilization and consolidation of our facilities.

Item 3. Legal Proceedings

We are, from time to time, a party to legal proceedings arising in the normal course of business. Our management believes that none of these legal proceedings will materially or adversely affect our financial position, results of operations or cash flows.

Item 4. Submission of Matters to a Vote of Security Holders

There were no matters submitted during the quarter ended April 29, 2000 to a vote of our security holders.

EXECUTIVE OFFICERS OF THE REGISTRANT

As of July 10, 2000, the record date of our 2000 Annual Meeting of Stockholders, the following persons served as executive officers of School Specialty:

Name and Age of Officer	
Daniel P. Spalding Age 45	Mr. Spalding became Chairman of the Board and Chief Executive Officer of School Specialty in February 1998. From 1996 to February 1998, Mr. Spalding served as President of the Educational Supplies and Products Division of U.S. Office Products. From 1988 to 1996, he served as President, Chief Executive Officer and a director of School Specialty's predecessor. Prior to 1988, Mr. Spalding was an officer of JanSport, a manufacturer of sports apparel and backpacking equipment. Mr. Spalding was a co-founder of JanSport and served as President and Chief Executive Officer from 1977 to 1984. Mr. Spalding has been a director of the National School Supply and Equipment Association since 1992 and completed his term as the association's Chairman in November 1997.
David J. Vander Zanden Age 45	Mr. Vander Zanden became the President and Chief Operating Officer of School Specialty in March 1998. From 1992 to March 1998, he served as President of Ariens Company, a manufacturer of outdoor lawn and garden equipment. Mr. Vander Zanden has served as a director of School Specialty since completion of the spin-off from U.S. Office Products in June 1998.
Mary M. Kabacinski Age 51	Ms. Kabacinski, a Certified Public Accountant, has served as Executive Vice President and Chief Financial Officer since August 1999. From 1989 to 1999, she served as Executive Vice President and Chief Financial Officer for Marquette Medical Systems, a manufacturer of medical devices.

Donald J. Noskowiak Age 42	Mr. Noskowiak has served as Vice President Finance/Business Development since August 1999. Mr. Noskowiak has been with School Specialty since 1992, and served as Chief Financial Officer from 1997 to August 1999.
Melvin D. Hilbrown Age 52	Mr. Hilbrown has served as Executive Vice President of School Specialty and Managing Director for Gresswell since completion of the spin-off from U.S. Office Products in June 1998. Mr. Hilbrown joined School Specialty as Managing Director of Gresswell with School Specialty's acquisition of Don Gresswell, Ltd. in 1997. He had been Managing Director of Gresswell since 1989.
Richard H. Nagel Age 59	Mr. Nagel has served as Executive Vice President of School Specialty for Sax Arts and Crafts since June 1998. Mr. Nagel joined School Specialty with the acquisition of Sax Arts and Crafts in 1997. Mr. Nagel has been with Sax Arts and Crafts since 1975.
Donald Ray Pate, Jr. Age 37	Mr. Pate has served as Executive Vice President of School Specialty for *ClassroomDirect.com* since June 1998. Mr. Pate joined School Specialty with the acquisition of Re-Print in 1996, having served as President of Re-Print since he acquired it in 1988.
Ronald E. Suchodolski Age 54	Mr. Suchodolski has served as Executive Vice President of School Specialty for Childcraft since 1998. Mr. Suchodolski joined School Specialty with the acquisition of Childcraft in 1997. Mr. Suchodolski was Vice President of Childcraft in 1995 and 1996 and was Director of Childcraft's school division from 1984 to 1989. From 1989 to 1993, Mr. Suchodolski was President of the Judy/Instructo Division of Paramount, and from 1993 to 1995, Mr. Suchodolski served as Senior Vice President of Sales and Marketing for Paramount Publishing's Supplementary Materials Division.
Michael J. Killoren Age 43	Mr. Killoren has served as Executive Vice President and Chief Information Officer of *JuneBox.com, Inc.*, since June 2000. From 1999 through June 2000, Mr. Killoren served as Vice President and Chief Information Officer of School Specialty. Mr. Killoren was Chief Operating Officer of School Specialty Distribution from 1997 to 1999 and Vice President Operations from 1992 to 1997. Mr. Killoren joined School Specialty in 1980.
Brian E. Chapin Age 48	Mr. Chapin has served as Executive Vice President of School Specialty for SmartStuff since School Specialty acquired SmartStuff in March 1999. Mr. Chapin served as President of SmartStuff since he founded it in 1993.
Peter S. Savitz Age 51	Mr. Savitz has served as Executive Vice President of School Specialty for Sportime since School Specialty acquired Sportime in February 1999. Mr. Savitz has been with Sportime since 1972.
Garett H.D. Reid Age 60	Mr. Reid has served as Executive Vice President of School Specialty for Frey Scientific since School Specialty acquired National School Supply Company (Beckley-Cardy) in August 1998. Mr. Reid served as Vice President of Marketing and Sales in Science & Media with the Beckley-Cardy Group since 1989.

Joseph F. Franzoi IV Age 45	Mr. Franzoi has served as Corporate Counsel since June 1998 and became a part-time employee of *JuneBox.com, Inc.*, in June 2000. Mr. Franzoi has practiced corporate law with Franzoi and Franzoi, S.C., from 1980 to the present, concentrating in the area of mergers and acquisitions.

Daniel P. Spalding and Michael J. Killoren are cousins.

The term of office of each executive officer is from one annual meeting of the Board of Directors until the next annual meeting of the Board of Directors or until a successor for each is selected.

There are no arrangements or understandings between any of our executive officers and any other person (not an officer or director of School Specialty acting as such) pursuant to which any of our executive officers were selected as an officer of School Specialty.

PART II

Item 5. Market for Registrant's Common Equity and Related Stockholder Matters

Market Information

Our Common Stock has traded under the symbol "SCHS" on the Nasdaq National Market since June 10, 1998. There was no market for the Common Stock prior to that date. The table below sets forth the reported high and low closing sale prices for shares of the Common Stock on the Nasdaq National Market during the indicated quarters.

Fiscal quarter ended	High	Low
July 24, 1999	$19.3125	$14.3125
October 23, 1999	17.3750	11.8750
January 22, 2000	16.6250	12.1250
April 29, 2000	23.1250	14.1250

Fiscal quarter ended	High	Low
July 25, 1998	$17.8750	$14.3750
October 24, 1998	17.0000	10.6250
January 23, 1999	25.0625	13.8750
April 24, 1999	25.8750	17.7500

Holders

As of July 1, 2000, there were 2,609 record holders of the Common Stock.

Historical Dividends

We have not declared or paid any cash dividends on our Common Stock to date. We currently intend to retain our future earnings, if any, to finance the growth, development and expansion of our business. Accordingly, we do not expect to pay cash dividends on our Common Stock in the foreseeable future. In addition, our ability to pay dividends may be restricted or prohibited from time to time by financial covenants in our credit agreements and debt instruments. Our current credit facility contains restrictions on, and in some circumstances may prevent, our payment of dividends.

Item 6. Selected Financial Data

SELECTED HISTORICAL FINANCIAL DATA
(in thousands, except per share data) (1)(2)

	Fiscal Year Ended				Four Months Ended	Fiscal Year Ended
	(53 Weeks) April 29, 2000	(52 Weeks) April 24, 1999	(52 Weeks) April 25, 1998	(52 Weeks) April 26, 1997	April 30, 1996	(52 Weeks) December 31, 1995
Statement of Income Data:						
Revenues	$639,271	$521,704	$310,455	$191,746	$ 28,616	$150,482
Cost of revenues	406,043	341,783	202,870	126,862	18,591	98,233
Gross profit	233,228	179,921	107,585	64,884	10,025	52,249
Selling, general and administrative expenses	184,586	144,659	87,846	53,177	11,917	47,393
Non-recurring acquisition costs	—	—	—	1,792	1,122	—
Restructuring costs	—	5,274	3,491	194	—	2,532
Operating income (loss)	48,642	29,988	16,248	9,721	(3,014)	2,324
Interest expense (net)	13,151	12,601	5,373	4,197	1,455	5,536
Other (income) expense	1,856	(228)	156	(196)	67	(18)
Income (loss) before provision for (benefit from) income taxes	33,635	17,615	10,719	5,720	(4,536)	(3,194)
Provision for (benefit from) income taxes (3)	15,120	8,719	5,480	(2,412)	139	173
Net income (loss)	$ 18,515	$ 8,896	$ 5,239	$ 8,132	$ (4,675)	$ (3,367)
Net income (loss) per share:						
Basic	$ 1.06	$ 0.61	$ 0.40	$ 0.81	$ (0.54)	$ (0.51)
Diluted	$ 1.06	$ 0.60	$ 0.39	$ 0.80	$ (0.53)	$ (0.50)
Weighted average shares outstanding:						
Basic	17,429	14,690	13,284	10,003	8,611	6,562
Diluted	17,480	14,840	13,547	10,196	8,789	6,669

	April 29, 2000	April 24, 1999	April 25, 1998	April 26, 1997	April 30, 1996	December 31, 1995
Balance Sheet Data:						
Working capital (deficit)	$117,018	$115,853	$ 47,791	$ 14,491	$ (3,663)	$ (1,052)
Total assets	454,849	437,708	223,729	87,685	54,573	54,040
Long-term debt	144,789	161,691	63,014	33,792	15,031	15,294
Total debt	162,180	173,285	83,302	60,746	40,918	39,783
Stockholders' equity (deficit)	224,993	202,687	106,466	16,329	(4,267)	(620)

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(1) The historical financial information of School Specialty, Inc., a Wisconsin corporation, and The Re-Print Corp., both of which were acquired by U.S. Office Products in business combinations accounted for under the pooling-of-interests method in May 1996 and July 1996, respectively, have been combined on a historical cost basis in accordance with generally accepted accounting principles ("GAAP") to present this financial data as if the two companies had always been members of the same operating group. All business acquisitions since July 1996 have been accounted for under the purchase method. The financial information of the businesses acquired in business combinations accounted for under the purchase method is included from the dates of their respective acquisitions.

(2) Certain amounts previously reported have been reclassified to conform with the fiscal 2000 presentation. These reclassifications have no effect on net income or net income per share.

(3) Results for the fiscal year ended April 26, 1997 include a benefit from income taxes of $2.4 million which primarily resulted from the reversal of a $5.3 million valuation allowance in the quarter ended April 26, 1997. The valuation allowance had been established in 1995 to offset the tax benefit from net operating loss carryforwards included in our deferred tax assets, because at the time it was not likely that such tax benefit would be realized. The valuation allowance was reversed subsequent to our being acquired by U.S. Office Products, because it was deemed "more likely than not," based on improved results, that such tax benefit would be realized.

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

You should read this Management's Discussion and Analysis of Financial Condition and Results of Operations together with the consolidated financial statements and related notes, included elsewhere in this Annual Report.

Overview

We are the largest marketer of non-textbook educational supplies and furniture to schools for pre-kindergarten through twelfth grade. We offer more than 72,000 items through an innovative two-pronged marketing approach that targets both school administrators and individual teachers. Our broad product range enables us to provide our customers with one source for virtually all of their non-textbook school supplies and furniture needs. We have grown significantly in recent years both through internal growth and acquisitions.

Revenues have increased from $150.5 million in fiscal 1995 to $639.3 million in fiscal 2000. This increase is driven primarily by internal growth and acquisitions. Our revenues for fiscal 2000 were $639.3 million and our operating income before restructuring costs was $48.6 million, which represented compound annual increases of 40% and 70%, respectively, compared to our historical results for fiscal 1995.

Our gross margin has improved in recent years primarily due to acquisitions and increased buying power. We have acquired many specialty businesses, which tend to have higher gross margins than our traditional business. In addition, our acquisitions of both specialty and traditional businesses have increased our buying power, resulting in reduced costs of the products we purchase.

Our operating margins have also improved significantly over the last several years. This improvement reflects our recent acquisitions of specialty companies which typically have higher operating margins than our traditional businesses. In addition, through the integration of acquired businesses, we have been able to further improve our operating margins by eliminating redundant expenses, leveraging overhead costs and improving purchasing power. While we have already achieved significant operating margin improvements from the acquisitions we have made to date, we believe there are still opportunities to eliminate redundant expenses.

Our effective tax rate is higher than the federal statutory tax rate of 35%, due primarily to non-deductible goodwill amortization and state taxes.

Our business and working capital needs are highly seasonal with peak sales levels occurring from May through October. During this period, we receive, ship and bill the majority of our orders so that schools and teachers receive their merchandise by the start of each school year. Our inventory levels increase in May through June in anticipation of the peak shipping season. The majority of shipments are made between May and October and the majority of cash receipts are collected from September through December. As a result, we usually earn more than 100% of our annual net income in the first six months of our fiscal year and operate at a loss in our third and fourth fiscal quarters.

Results of Operations

The following table sets forth certain information as a percentage of revenues on a historical basis concerning our results of operations for fiscal 2000, fiscal 1999, and fiscal 1998.

	Fiscal Year Ended		
	April 29, 2000 (53 Weeks)	April 24, 1999 (52 Weeks)	April 24, 1998 (52 Weeks)
Revenues	100.0%	100.0%	100.0%
Cost of revenues	63.5	65.5	65.3
Gross profit	36.5	34.5	34.7
Selling, general and administrative expenses	28.9	27.7	28.3
Restructuring and strategic restructuring acquisition costs	—	1.0	1.1
Operating income	7.6	5.8	5.3
Interest expense, net	2.1	2.4	1.8
Other expense	0.2	—	0.1
Income before provision for income taxes	5.3	3.4	3.4
Provision for income taxes	2.4	1.7	1.8
Net income	2.9%	1.7%	1.6%

Consolidated Historical Results of Operations

Year Ended April 29, 2000 (53 weeks) Compared to Year Ended April 24, 1999 (52 weeks)

Revenues

Revenues increased 22.5% from $521.7 million for fiscal 1999 to $639.3 million for fiscal 2000. This increase is primarily due to internal growth on existing business and the inclusion of revenues from the six companies acquired in business combinations accounted for under the purchase method of accounting since the beginning of fiscal 1999.

Gross Profit

Gross profit increased 29.6% from $179.9 million, or 34.5% of revenues, in fiscal 1999 to $233.2 million, or 36.5% of revenues, in fiscal 2000. The increase in gross profit as a percentage of revenues was due primarily to (1) a shift in product mix to increased revenue from the specialty business, where proprietary products generate higher gross margins than the traditional business, (2) an improvement in traditional business gross margins, driven primarily by more favorable pricing and the elimination of less profitable products from our product offering, and (3) an improvement in specialty business gross margin, which was driven by more favorable product mix and contributions from Sportime, which was acquired in February of fiscal 1999, and has higher gross margins than most of our other businesses. These increases were slightly offset by contributions from the Internet business, which as a group has lower gross margins than our other businesses.

Selling, General and Administrative Expenses

Selling, general and administrative expenses include selling expenses (the most significant component of which is sales wages and commissions), operations expenses (which includes customer service, warehouse and outbound transportation costs), catalog costs, general administrative overhead (which includes information systems, accounting, legal, and human resources) and depreciation and amortization expense.

Selling, general and administrative expenses increased 27.6% from $144.7 million, or 27.7% of revenues, in fiscal 1999 to $184.6 million, or 28.9% of revenues, in fiscal 2000. The increase in selling, general and administrative expense is primarily due to an increase in revenue. The increase in selling, general and administrative expense as a percent of revenue is primarily due to (1) a shift in revenue mix to the specialty business, which has higher selling, general and administrative expenses than the traditional business, (2) higher amortization expense due to goodwill amortization related to the six acquisitions we have completed since the beginning of fiscal 1999, and (3) expenses related to expanding the Internet business, which are incremental in fiscal 2000. These increases are offset by reduced selling, general and administrative expenses in the traditional business, which is primarily due to the integration of Beckley-Cardy and the restructuring of the traditional business, which began in the second quarter of fiscal 1999.

Restructuring Costs

During fiscal 1999, we recorded a strategic restructuring charge of $1.1 million in the first quarter and $4.2 million in the second quarter, for a total of $5.3 million during fiscal 1999. The $1.1 million charge related to a one-time, non-cash charge for compensation expense attributed to U.S. Office Product's stock option tender offer and the sale of shares of Common Stock to some of our executive management personnel. The $4.2 million charge was to consolidate existing warehousing, customer service and sales operations. Further details of the restructuring charge are discussed in the notes to consolidated financial statements.

Net Interest Expense and Other Expenses

Net interest expense increased $0.6 million from $12.6 million, or 2.4% of revenues, in fiscal 1999, to $13.2 million, or 2.1% of revenues in fiscal 2000. The increase in net interest expense is primarily attributed to the debt assumed and cash paid for the six companies acquired since the beginning of fiscal 1999, partially offset by debt repaid from the net proceeds from our secondary offering in April 1999. Other expenses of $1.9 million for fiscal 2000 primarily represents the loss on the disposal of a facility donated to a municipality and a non-cash impairment charge on a minority investment.

Provision for Income Taxes

Provision for income taxes for fiscal 2000 increased 73.4% or $6.4 million over fiscal 1999, reflecting income tax rates of 45.0% and 49.5% in fiscal 2000 and fiscal 1999, respectively. The decrease in the effective tax rate is primarily due to a decline in the effective state tax rate and a reduction in the amount of non-deductible goodwill amortization. The higher effective tax rate, as compared to the federal statutory rate of 35.0%, is primarily due to state income taxes and non-deductible goodwill amortization.

Fiscal Year Ended April 24, 1999 Compared to Fiscal Year Ended April 25, 1998

Revenues

Consolidated revenues increased 68.0%, from $310.5 million for fiscal 1998 to $521.7 million for fiscal 1999. This increase was due primarily to the inclusion of revenues of thirteen businesses acquired since the beginning of fiscal l998 and internal growth on existing businesses.

Gross Profit

Gross profit increased 67.2%, from $107.6 million in fiscal 1998 to $179.9 million in fiscal 1999 primarily due to the acquisitions referred to above. Gross profit as a percent of revenues declined slightly from 34.7% in fiscal 1998 to 34.5% in fiscal 1999. This decline was due primarily to a reduction in traditional business gross margin, driven by the acquisition of Beckley-Cardy, which had lower gross margins than our existing traditional business and an increase in lower margin bid revenues. These reductions were offset by an increase in specialty business revenue, which typically has higher gross margins than the traditional business.

Selling, General and Administrative Expense

Selling, general and administrative expenses increased 64.7%, from $87.8 million in fiscal 1998 to $144.7 million in fiscal 1999, due primarily to the acquisitions referred to above. As a percentage of revenues, these expenses declined 0.6% from 28.3% for fiscal 1998 to 27.7% for fiscal 1999. The decrease in selling, general and administrative expenses as a percentage of revenues was the result of cost savings attributable to the integration of companies acquired during fiscal 1998 and the consolidation of our warehousing, sales and customer service operations under the restructuring of the traditional business which began in the second quarter of fiscal 1999. These decreases were offset by increases attributable to the acquisition of Beckley-Cardy in the second quarter of fiscal 1999 (which had higher selling, general and administrative expenses as a percentage of revenues than our existing businesses) and higher depreciation and amortization expenses due to the thirteen companies acquired since the beginning of fiscal 1998.

Restructuring Costs

During fiscal 1999, we recorded a strategic restructuring charge of $1.1 million in the first quarter and $4.2 million in the second quarter, for a total of $5.3 million during fiscal 1999. The $1.1 million charge related to a one-time, non-cash charge for compensation expense attributed to U.S. Office Product's stock option tender offer and the sale of shares of Common Stock to some of our executive management personnel, net of underwriting discounts. The $4.2 million charge was to consolidate existing warehousing, customer service and sales operations. Further details of the restructuring charge are discussed in the notes to consolidated financial statements.

Net Interest Expense

Net interest expense increased 134.5%, from $5.4 million, or 1.8% of revenues, for fiscal 1998 to $12.6 million, or 2.4% of revenues, for fiscal 1999. The increase in net interest expense is primarily attributed to the debt assumed and cash paid for the thirteen companies acquired since the beginning of fiscal 1998, offset by debt repaid from the proceeds from our secondary public offering in April 1999, our initial public offering in June 1998, and the forgiveness of debt from U.S. Office Products in connection with the spin-off.

Provision for Income Taxes

Provision for income taxes increased 59.1% from $5.5 million for fiscal 1998 to $8.7 million for fiscal 1999, reflecting effective income tax rates of 49.5% and 51.1% for fiscal 1999 and fiscal 1998, respectively. The higher effective tax rate, compared to the federal statutory rate of 35%, is primarily due to state income taxes and non-deductible goodwill amortization.

Liquidity and Capital Resources

At April 29, 2000, we had working capital of $117.0 million. Our capitalization at April 29, 2000 was $386.9 million and consisted of bank debt of $161.9 million and stockholders' equity of $225.0 million.

We currently have a five year secured $350 million revolving credit facility with Bank of America, N.A. The credit facility has a $100 million term loan payable quarterly over five years commencing in January 1999 and revolving loans which mature on September 30, 2003. The amount outstanding as of April 29, 2000 under the credit facility was approximately $161.9 million, consisting of $75.6 million outstanding under the revolving loan portion of the facility and $86.3 million outstanding under the term loan portion of the facility. Borrowings under the credit facility are usually significantly higher during our first and second quarters to meet the working capital needs of our peak selling season. On October 28, 1998, we entered into an interest rate swap agreement with the Bank of New York covering $50 million of the outstanding credit facility. The agreement fixes the 30 day LIBOR interest rate at 4.37% per annum (floating LIBOR on April 29, 2000 was 6.18%) on the $50 million notional amount and has a three year term that may be canceled by the Bank of New York on the second anniversary. As of April 29, 2000, the effective interest rate on borrowings under our credit facility was approximately 8.3% excluding the effect of the swap agreement and 7.8% including the effect of the swap agreement. In fiscal 2000, we borrowed under the credit facility primarily for seasonal working capital and capital expenditures. During fiscal 2000, we made certain immaterial changes to certain financial and other covenants under our credit facility.

On April 16, 1999, we sold 2,400,000 shares of Common Stock in a public offering for $40.8 million in net proceeds. On May 17, 1999, we sold an additional 151,410 shares of Common Stock to cover over-allotments for $2.2 million in net proceeds. The total proceeds were used to reduce indebtedness outstanding under our credit facility.

On June 9, 1998, we sold 2,125,000 shares of Common Stock in a public offering for $30.6 million in net proceeds and we sold 250,000 shares of Common Stock in a concurrent offering directly to certain executive officers of School Specialty for aggregate consideration of $3.6 million. In connection with the offerings, we incurred approximately $1.5 million of expenses. The total net proceeds to us from the offerings were $32.7 million. The net proceeds were used to reduce indebtedness outstanding under our credit facility.

During fiscal 2000, net cash provided by operating activities was $31.1 million. This net cash provided by operating activities during the period is indicative of the high seasonal nature of the business, with sales occurring in the first and second quarter of the fiscal year and cash receipts in the second and third quarters. Net cash used in investing activities was $27.3 million, including $1.3 million for acquisitions, $17.3 million for additions to property and equipment and $8.7 million for other long term assets. Investments in other long term assets include $3.0 million for a minority interest in A Better Way of Learning which is an e-commerce fulfillment partner of School Specialty, $2.8 million for software licensing to power *JuneBox.com*, our purchasing portal for schools, $1.7 million to purchase the net assets of a division of a furniture manufacturer and a compilation of other long term investments.

Net payments of $9.4 million were made to reduce indebtedness under the credit facility, using $2.2 million in proceeds from the issuance of Common Stock, as well as cash from operations and cash on hand.

During fiscal 1999, net cash provided by operating activities was $27.6 million. Net cash used in investing activities was $127.2 million, including $122.3 million for acquisitions and $4.9 million for additions to property and equipment and other. Net cash provided by financing activities was $109.4 million. Borrowing under the credit facility included (1) $0.8 million used to fund the cash portion of the purchase price of the Holsinger acquisition, (2) $3.7 million used to fund the purchase price of the SmartStuff acquisition, (3) $23 million used to fund the purchase price of the Sportime acquisition, (4) $16.5 million used to fund the cash portion of the purchase price of the Hammond & Stephens acquisition, (5) $134.7 million used to fund the Beckley-Cardy acquisition consisting of $78.1 million for the purchase price and $56.6 million for debt repayment, (6) $83.3 million used to repay the U.S. Office Products debt in connection with the spin-off and (7) $67.8 million used for short-term funding of seasonal working capital and the purchase of property and equipment. The $32.7 million net proceeds from our initial public offering and concurrent offering to certain officers and directors and $40.6 million of the net proceeds from our public offering in April 1999 were used to repay a portion of the funds borrowed under the credit facility. U.S. Office Products contributed capital of $7.2 million as required under the distribution agreement entered into with us in connection with the spin-off.

During fiscal 1998, net cash provided by operating activities was $3.7 million. Net cash used in investing activities was $99.7 million, including $95.7 million for acquisitions and $4.0 million for additions to property and equipment and other. Net cash provided by financing activities was $96.0 million, including $95.7 million provided by U.S. Office Products to fund the cash portion of the purchase price and the repayment of debt assumed with the acquisition of the Fiscal 1998 Purchased Companies, $81.3 million of which was considered a contribution of capital by U.S. Office Products, partially offset by $8.4 million used to repay indebtedness.

Our anticipated capital expenditures for the next twelve months are expected to be $13 million. The largest items include software development for our Internet initiative, computer hardware and software and warehouse equipment.

We anticipate that our cash flow from operations and borrowings available from our existing credit facility will be sufficient to meet our liquidity requirements for operations, including capital expenditures, and our debt service obligations.

Fluctuations in Quarterly Results of Operations

Our business is subject to seasonal influences. Our historical revenues and profitability have been dramatically higher in the first two quarters of our fiscal year (May-October) primarily due to increased shipments to customers coinciding with the start of each school year.

Quarterly results also may be materially affected by the timing of acquisitions, the timing and magnitude of costs related to such acquisitions, variations in our costs for the products sold, the mix of products sold and general economic conditions. Moreover, the operating margins of companies we acquire may differ substantially from our own, which could contribute to further fluctuation in quarterly operating results. Therefore, results for any quarter are not indicative of the results that we may achieve for any subsequent fiscal quarter or for a full fiscal year.

The following table sets forth certain unaudited consolidated quarterly financial data for fiscal 2000 (53 weeks) and fiscal 1999 (52 weeks). We derived this data from unaudited consolidated financial statements.

	Year Ended April 29, 2000				
	First	Second	Third	Fourth	Total
	(13 weeks)	(13 weeks)	(13 weeks)	(14 weeks)	(53 weeks)
Revenues	$194,299	$231,588	$97,244	$116,140	$639,271
Gross profit	72,879	82,913	33,429	44,007	233,228
Operating income (loss)	24,564	26,701	(2,245)	(378)	48,642
Net income (loss)	11,364	12,184	(3,032)	(2,001)	18,515
Per share amounts:					
Basic	$ 0.65	$ 0.70	$ (0.17)	$ (0.11)	$ 1.06
Diluted	$ 0.65	$ 0.70	$ (0.17)	$ (0.11)	$ 1.06

	Year Ended April 24, 1999				
	First	Second	Third	Fourth	Total
	(13 weeks)	(13 weeks)	(13 weeks)	(13 weeks)	(52 weeks)
Revenues	$126,657	$212,316	$85,359	$97,372	$521,704
Gross profit	44,042	70,761	28,093	37,025	179,921
Operating income (loss)	13,326	18,674	(2,383)	371	29,988
Net income (loss)	6,563	7,430	(3,298)	(1,799)	8,896
Per share amounts:					
Basic	$ .45	$ .51	$ (.23)	$ (.12)	$ .61
Diluted	$ .44	$ .51	$ (.23)	$ (.12)	$ .60

Inflation

Inflation has and is expected to have only a minor affect on our results of operations and our internal and external sources of liquidity.

Recent Accounting Pronouncements

In June, 1998, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards ("SFAS") No. 133 "Accounting for Derivative Instruments and Hedging Activities." SFAS No. 137, which delays the adoption date of SFAS No. 133 and was issued in July, 1999, requires adoption of SFAS No. 133 for annual periods beginning after June 15, 2000. SFAS No. 133 establishes standards for recognition and measurement of derivatives and hedging activities. The Company will implement this statement in fiscal year 2002 as required. The adoption of SFAS No. 133 is not expected to have a material effect on the Company's financial position or results of operations.

The SEC issued Staff Accounting Bulletin No. 101, "Revenue Recognition" ("SAB No. 101"), in December 1999, which provides guidance on the recognition, presentation, and disclosure of revenue in financial statements. On June 26, 2000, the SEC issued SAB No. 101B, which delayed implementation of SAB No. 101. The Company will implement SAB No. 101 in the fourth quarter of fiscal year 2001 as required by SAB No. 101B. The company is reviewing the requirements of SAB No. 101 and has not yet determined the impact of this standard on its consolidated financial statements. It is not expected, however, that SAB No. 101 will have a material effect on the Company's financial position or results of operations.

Year 2000

The Year 2000 issue exists because many computer systems and applications, including those embedded in equipment and facilities, use two digit rather than four digit date fields to designate an applicable year. As a result, the systems and applications may not properly recognize the Year 2000 or process data which include it, potentially causing data miscalculations or inaccuracies or operational malfunctions or failures.

Our systems, as well as those of our third party suppliers, made an uneventful transition from 1999 to 2000. No material disruptions occurred and operations continued without interruption in the new year. While initial indications suggest that Year 2000 issues will not adversely affect our operations, we will continue to monitor our systems, as well as those of our third party suppliers, to ensure Year 2000 compliance.

Item 7A. Quantitative and Qualitative Disclosure About Market Risk

Our financial instruments include cash and cash equivalents, accounts receivable, accounts payable, equity securities and long-term debt. Market risks relating to our operations result primarily from changes in interest rates. Our borrowings are primarily dependent upon LIBOR rates. The estimated fair value of long-term debt approximates its carrying value at April 29, 2000.

We do not hold or issue derivative financial instruments for trading purposes. To manage interest rate risk on the variable rate borrowings under the revolving portion of our credit facility, we entered into an interest rate swap agreement during fiscal 1999. See "Management's Discussion and Analysis of Financial Condition and Results of Operations — Liquidity and Capital Resources." This interest rate swap agreement has the effect of locking in, for a specified period, the base interest rate we will pay on the $50 million notional principal amount established in the swap. As a result, while this hedging arrangement is structured to reduce our exposure to interest rate increases, it also limits the benefit we might otherwise have received from any interest rate decreases. This swap is usually cash settled monthly, with interest expense adjusted for amounts paid or received. Effects of this swap have been minor for the year ending April 29, 2000.

Item 8. **Financial Statements and Supplementary Data**

REPORT OF INDEPENDENT ACCOUNTANTS

To the Board of Directors
of School Specialty, Inc.

In our opinion, the consolidated financial statements listed in the index appearing under Item 14(a)(1) on page 57 present fairly, in all material respects, the financial position of School Specialty, Inc. and its subsidiaries at April 29, 2000, and April 24, 1999, and the results of their operations and their cash flows for each of the three years in the period ended April 29, 2000, in conformity with accounting principles generally accepted in the United States. In addition, in our opinion, the financial statement schedule listed in the accompanying index appearing under Item 14(a)(2) on page 57 presents fairly, in all material respects, the information set forth therein when read in conjunction with the related consolidated financial statements. These financial statements and the financial statement schedule are the responsibility of the Company's management; our responsibility is to express an opinion on these financial statements and the financial statement schedule based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States, which 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, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for the opinion expressed above.

PricewaterhouseCoopers LLP

Minneapolis, Minnesota
June 9, 2000

FINANCIAL STATEMENTS

SCHOOL SPECIALTY, INC.
CONSOLIDATED BALANCE SHEET
(In Thousands, Except Share Data)

	April 29, 2000	April 24, 1999
ASSETS		
Current assets:		
Cash and cash equivalents	$ 4,151	$ 9,779
Accounts receivable, less allowance for doubtful accounts of $1,744 and $2,234, respectively	76,028	74,781
Inventories	86,117	78,783
Prepaid expenses and other current assets	28,664	17,332
Deferred taxes	6,964	8,371
Total current assets	201,924	189,046
Property and equipment, net	51,725	42,305
Intangible assets, net	192,744	198,710
Deferred taxes	1,861	3,810
Other	6,595	3,837
Total assets	$ 454,849	$ 437,708
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Current maturities – long-term debt	$ 17,391	$ 11,594
Accounts payable	48,874	37,050
Accrued compensation	8,634	8,410
Accrued restructuring	65	2,752
Other accrued liabilities	9,942	13,387
Total current liabilities	84,906	73,193
Long-term debt	144,789	161,691
Other	161	137
Total liabilities	229,856	235,021
Commitments and contingencies		
Stockholders' equity:		
Preferred stock, $0.001 par value per share, 1,000,000 shares authorized; none outstanding	-	-
Common Stock, $0.001 par value per share, 150,000,000 shares authorized and 17,464,505 and 17,229,197 shares issued and outstanding	17	17
Capital paid-in excess of par value	196,012	192,196
Accumulated other comprehensive loss	(30)	(5)
Retained earnings	28,994	10,479
Total stockholders' equity	224,993	202,687
Total liabilities and stockholders' equity	$ 454,849	$ 437,708

See accompanying notes to consolidated financial statements.

SCHOOL SPECIALTY, INC.
CONSOLIDATED STATEMENT OF OPERATIONS
(In Thousands, Except Per Share Amounts)

	For the Fiscal Year Ended		
	April 29, 2000 (53 weeks)	April 24, 1999 (52 weeks)	April 25, 1998 (52 weeks)
Revenues	$ 639,271	$ 521,704	$ 310,455
Cost of revenues	406,043	341,783	202,870
Gross profit	233,228	179,921	107,585
Selling, general and administrative expenses	184,586	144,659	87,846
Restructuring and strategic restructuring costs	-	5,274	3,491
Operating income	48,642	29,988	16,248
Other (income) expense:			
Interest expense	13,342	12,735	5,505
Interest income	(191)	(134)	(132)
Other	1,856	(228)	156
Income before provision for income taxes	33,635	17,615	10,719
Provision for income taxes	15,120	8,719	5,480
Net income	$ 18,515	$ 8,896	$ 5,239
Weighted average shares outstanding:			
Basic	17,429	14,690	13,284
Diluted	17,480	14,840	13,547
Net income per share:			
Basic	$ 1.06	$ 0.61	$ 0.40
Diluted	$ 1.06	$ 0.60	$ 0.39

See accompanying notes to consolidated financial statements.

SCHOOL SPECIALTY, INC.
CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY
(In Thousands)

	Common Stock		Capital Paid-in Excess of	Divisional	Accumulated Other Comprehensive	Retained Earnings	Total Stockholders'	Total Comprehensive
	Shares	Dollars	Par Value	Equity	Income (Loss)	Deficit	Equity	Income (Loss)
Balance at April 26, 1997	-	$ -	$ -	$19,985	$ -	$ (3,656)	$ 16,329	
Issuances of U.S. Office Products common stock in conjunction with acquisitions	-	-	-	3,566	-	-	3,566	
Capital contribution by U.S. Office Products	-	-	-	81,332	-	-	81,332	
Net income	-	-	-	-	-	5,239	5,239	$ 5,239
Total comprehensive income								5,239
Balance at April 25, 1998	-	-	-	104,883	-	1,583	106,466	
Shares distributed in spin-off from U.S. Office Products	12,204	12	104,867	(104,883)	4	-	-	4
Capital contribution by U.S. Office Products	-	-	7,217	-	-	-	7,217	
Compensation charge for options tendered in strategic restructuring	-	-	803	-	-	-	803	
Compensation expense from School Specialty, Inc. stock purchase	-	-	271	-	-	-	271	
Issuances of common stock in conjunction with acquisitions	250	-	5,487	-	-	-	5,487	
Issuances of common stock	4,775	5	73,551	-	-	-	73,556	
Cumulative translation adjustment	-	-	-	-	(9)	-	(9)	(9)
Net income	-	-	-	-	-	8,896	8,896	8,896
Total comprehensive income								8,891
Balance at April 24, 1999	17,229	17	192,196	-	(5)	10,479	202,687	
Issuances of common stock	151	-	2,225	-	-	-	2,225	
Issuance of common stock in conjunction with stock option exercises and related tax benefits	55	-	918	-	-	-	918	
Issuance of common stock in conjunction with acquisitions	57	-	1,178	-	-	-	1,178	
Retirement of common stock in connection with odd-lot tender offer	(27)	-	(505)	-	-	-	(505)	
Cumulative translation adjustment	-	-	-	-	(25)	-	(25)	(25)
Net income	-	-	-	-	-	18,515	18,515	18,515
Total comprehensive income								$ 18,49(
Balance at April 29, 2000	17,465	$ 17	$ 196,012	-	$ (30)	$ 28,994	$224,993	

See accompanying notes to consolidated financial statements.

SCHOOL SPECIALTY, INC.
CONSOLIDATED STATEMENT OF CASH FLOWS
(In Thousands)

	For the Fiscal Year Ended		
	April 29, 2000 (53 weeks)	April 24, 1999 (52 weeks)	April 25, 1998 (52 weeks)
Cash flows from operating activities:			
Net income	$ 18,515	$ 8,896	$ 5,239
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization expense	11,839	9,604	4,561
Deferred taxes	5,746	468	-
Loss on disposal/impairment of fixed assets and other	2,096	-	-
Amortization of loan fees and other	671	762	78
Restructuring costs	-	5,274	2,491
Changes in current assets and liabilities (net of assets acquired and liabilities assumed in business combinations accounted for under the purchase method):			
Accounts receivable	844	13,583	(3,586)
Inventory	(6,137)	1,374	(6,666)
Prepaid expenses and other current assets	(6,441)	(2,822)	(717)
Accounts payable	9,943	(12,591)	5,256
Accrued liabilities	(6,006)	3,075	(2,932)
Net cash provided by operating activities	31,070	27,623	3,724
Cash flows from investing activities:			
Cash paid in acquisitions, net of cash acquired	(1,291)	(122,337)	(95,670)
Additions to property and equipment	(17,351)	(4,872)	(3,558)
Investment in long term assets	(8,704)	(27)	(514)
Net cash used in investing activities	(27,346)	(127,236)	(99,742)
Cash flows from financing activities:			
Repayment of bank debt and capital leases	(198,192)	(261,422)	(8,372)
Proceeds from bank borrowings	186,200	355,700	-
Proceeds from issuance of common stock	2,225	73,556	-
Repurchase of common stock	(505)	-	-
Proceeds from exercise of stock options	920	-	-
Advances from (payments to) U.S. Office Products	-	(62,699)	23,058
Capital contribution by U.S. Office Products	-	7,217	81,332
Capitalized loan fees	-	(2,960)	-
Net cash provided (used in) by financing activities	(9,352)	109,392	96,018
Net increase (decrease) in cash and cash equivalents	(5,628)	9,779	-
Cash and cash equivalents at beginning of period	9,779	-	-
Cash and cash equivalents at end of period	$ 4,151	$ 9,779	$ -
Supplemental disclosures of cash flow information:			
Interest paid	$ 13,215	$ 11,151	$ 35
Income taxes paid	$ 13,255	$ 5,123	$ 1,148

SCHOOL SPECIALTY, INC.
CONSOLIDATED STATEMENT OF CASH FLOWS—(Continued)
(In Thousands)

The Company issued common stock and cash in connection with certain business combinations accounted for under the purchase method in the fiscal years ended April 29, 2000, April 24, 1999, and April 25, 1998. The fair values of the assets and liabilities of the acquired companies are presented as follows:

	For the Fiscal Year Ended		
	April 29, 2000 (53 weeks)	April 24, 1999 (52 weeks)	April 25, 1998 (52 weeks)
Accounts receivable	$ 2,091	$ 49,645	$ 17,900
Inventories	1,434	30,850	18,180
Prepaid expenses and other current assets	65	11,142	2,431
Property and equipment	178	21,033	6,379
Intangible assets	2,214	103,455	80,359
Other assets	13	3,775	346
Short-term debt	-	(832)	(1,850)
Accounts payable	(1,881)	(25,853)	(9,400)
Accrued liabilities	(759)	(7,564)	(9,089)
Long-term debt	(885)	(57,599)	(6,020)
Other liabilities	-	(228)	-
Net assets acquired	$ 2,470	$127,824	$ 99,236
The acquisitions were funded as follows:			
Common stock	$ 1,178	$ 5,487	$ -
U.S. Office Products common stock	-	-	3,566
Cash paid, net of cash acquired	1,292	122,337	95,670
Total	$ 2,470	$127,824	$ 99,236

See accompanying notes to consolidated financial statements.

NOTE 1—BACKGROUND

School Specialty, Inc. (the "Company") is a Delaware corporation which was a wholly-owned subsidiary of U.S. Office Products Company ("U.S. Office Products") until June 9, 1998. On June 9, 1998, U.S. Office Products spun-off its Educational Supplies and Products Division (the "Education Division") as an independent publicly owned company. This transaction was effected through the distribution of shares of the Company to U.S. Office Products' shareholders (the "Distribution"). Prior to the Distribution, U.S. Office Products contributed its equity interests in certain wholly-owned subsidiaries associated with the Education Division to the Company. U.S. Office Products and the Company entered into a number of agreements to facilitate the Distribution and the transition of the Company to an independent business enterprise. Additionally, concurrently with the Distribution, the Company sold 2,125 shares in an initial public offering (the "IPO"). Following the IPO, management purchased 250 shares.

NOTE 2—BASIS OF PRESENTATION

The accompanying consolidated financial statements and related notes to consolidated financial statements include the accounts of School Specialty, Inc. and the companies acquired in business combinations accounted for under the purchase method from their respective dates of acquisition and give retroactive effect to the results of the pooled companies for all periods presented. For the periods prior to the Distribution, the consolidated financial statements reflect the assets, liabilities, divisional equity, revenues and expenses that were directly related to the Company as it was operated within U.S. Office Products. In cases involving assets and liabilities not specifically identifiable to any particular business of U.S. Office Products, only those assets and liabilities that were transferred to the Company were included in the Company's separate consolidated balance sheet. The Company's consolidated statement of income includes all of the related costs of doing business, including an allocation of certain general corporate expenses of U.S. Office Products which were not directly related to these businesses including certain corporate executives' salaries, accounting and legal fees, departmental costs for accounting, finance, legal, purchasing, marketing, and human resources as well as other general overhead costs. These allocations were based on a variety of factors, dependent upon the nature of the costs being allocated, including revenues, number and size of acquisitions and number of employees. Management believes these allocations were made on a reasonable basis.

The consolidated statement of income does not include an allocation of interest expense on all debt allocated to the Company. See Note 9 for further discussion of interest expense.

NOTE 3—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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 reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Definition of Fiscal Year

As used in these consolidated financial statements and related notes to consolidated financial statements, “fiscal 2000”, “fiscal 1999” and “fiscal 1998” refer to the Company’s fiscal years ended April 29, 2000 (53 weeks), April 24, 1999 (52 weeks), and April 25, 1998 (52 weeks), respectively.

Principles of Consolidation

The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries. All significant intercompany transactions and accounts are eliminated in consolidation.

Cash and Cash Equivalents

The Company considers temporary cash investments with original maturities of three months or less from the date of purchase to be cash equivalents.

Concentration of Credit Risk

Financial instruments which potentially subject the Company to concentrations of credit risk consist primarily of trade accounts receivable. Receivables arising from sales to customers are not collateralized and, as a result, management continually monitors the financial condition of its customers to reduce the risk of loss.

Inventories

Inventories are stated at the lower of cost or market with cost determined on a first-in, first-out (FIFO) basis and consist primarily of products held for sale.

Property and Equipment

Property and equipment is stated at cost. Additions and improvements are capitalized. Maintenance and repairs are expensed as incurred. Depreciation of property and equipment is calculated using the straight-line method over the estimated useful lives of the respective assets. The estimated useful lives range from twenty-five to forty years for buildings and its components and three to fifteen years for furniture, fixtures and equipment. Property and equipment leased under capital leases is being amortized over the lesser of its useful life or its lease terms.

Intangible Assets

Intangible assets consist primarily of goodwill, which represents the excess of cost over the fair value of net assets acquired in business combinations accounted for under the purchase method and non-compete agreements. Substantially all goodwill is amortized on a straight line basis over an estimated useful life of forty years, except for goodwill associated with a software subsidiary which is being amortized over fifteen years. Identifiable intangible assets include trademarks, capitalized technology, and franchise agreements which are being amortized over their estimated useful lives ranging from one to forty years.

Management periodically evaluates the recoverability of goodwill, which would be adjusted for a permanent decline in value, if any, by comparing anticipated undiscounted future cash flows from operations to net book value. If the operation is determined to be unable to recover the carrying amount of its assets, then intangible assets are written down first, followed by the other long-lived assets of the operation, to fair value. Fair value is determined based on discounted cash flows or appraised values, depending upon the nature of the assets. Based upon its most recent assessment, the Company does not believe an impairment of long-lived assets exists at April 29, 2000.

Cost Investment

The Company uses the cost method to account for its investment in a less than 20%-held entity. Under this method, the Company's investment is stated at cost and is periodically evaluated to determine if a write down of the investment is needed in order to properly state the investment at the lower of cost or market. In connection with this evaluation, the Company took a $1,500 charge during the fourth quarter of fiscal 2000.

Fair Value of Financial Instruments

The carrying amounts of the Company's financial instruments including cash and cash equivalents, accounts receivable, accounts payable, equity securities and long-term debt approximate fair value.

Income Taxes

Income taxes, during the period subsequent to the Distribution, have been computed utilizing the asset and liability approach which requires the recognition of deferred tax assets and liabilities for the tax consequences of temporary differences by applying enacted statutory tax rates applicable to future years to differences between the financial statement carrying amounts and the tax basis of existing assets and liabilities.

As a division of U.S. Office Products, the Company did not file separate federal income tax returns but rather was included in the federal income tax returns filed by U.S. Office Products and its subsidiaries from the respective dates that the entities within the Company were acquired by U.S. Office Products. For purposes of the consolidated financial statements, the Company's allocated share of U.S. Office Products' income tax provision was based on the "separate return" method. Certain companies acquired in pooling-of-interests transactions elected to be taxed as Subchapter S corporations and, accordingly, no federal income taxes were recorded by those companies for periods prior to their acquisition by U.S. Office Products.

Revenue Recognition

Revenue is recognized upon the delivery of products or upon the completion of services provided to customers as no additional obligations to the customers exist. Returns of the Company's product are considered immaterial.

Cost of Revenues

Vendor rebates are recorded as a reduction in the cost of inventory and recognized as a reduction in cost of revenues when such inventory is sold.

Advertising Costs

The Company expenses advertising costs when the advertisement occurs. Advertising costs are included in the consolidated statement of income as a component of selling, general and administrative expenses.

Deferred Catalog Costs

Deferred catalog costs are amortized in amounts proportionate to revenues over the life of the catalog, which is typically one to two years. Amortization expense related to deferred catalog costs is included in the consolidated statement of income as a component of selling, general and administrative expenses. Such amortization expense for the year ended April 29, 2000, April 24, 1999, and April 25, 1998 was $16,076, $12,146, and $6,934, respectively.

Research and Development Costs

Research and development costs are charged to operations in the year incurred. Research and development costs are included in the consolidated statement of income as a component of selling, general and administrative expenses.

Internally Developed Software

During fiscal 1999 the Company adopted the American Institute of Certified Public Accountants ("AICPA") Statement of Position 98-1, "Accounting for the Costs of Computer Software Developed or Obtained for Internal Use" ("SOP 98-1"). SOP 98-1 requires computer software costs associated with internal use software to be expensed as incurred until certain capitalization criteria are met.

Restructuring Costs

The Company records the costs of consolidating existing Company facilities into acquired operations, including the external costs and liabilities to close redundant Company facilities and severance and relocation costs related to the Company's employees in accordance with Emerging Issues Task Force ("EITF") Issue No. 94-3, "Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs Incurred in Restructuring)".

New Accounting Pronouncements

In June 1998, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards ("SFAS") No. 133 "Accounting for Derivative Instruments and Hedging Activities." SFAS No. 137, which delays the adoption date of SFAS No. 133 and was issued in July, 1999, requires adoption of SFAS No. 133 for annual periods beginning after June 15, 2000. SFAS No. 133 establishes standards for recognition and measurement of derivatives and hedging activities. The Company will implement this statement in fiscal year 2002 as required. The adoption of SFAS No. 133 is not expected to have a material effect on the Company's financial position or results of operations.

The SEC issued Staff Accounting Bulletin No. 101, "Revenue Recognition" ("SAB No. 101"), in December 1999, which provides guidance on the recognition, presentation, and disclosure of revenue in financial statements. On June 26, 2000, the SEC issued SAB No. 101B which delayed implementation of SAB No. 101. The Company will implement SAB No. 101 in the fourth quarter of fiscal year 2001 as required by SAB No. 101B. The Company is reviewing the requirements of SAB No. 101 and has not yet determined the impact of this standard on its consolidated financial statements. It is not expected, however, that SAB No. 101 will have a material effect on the Company's financial position or results of operations.

Distribution Ratio

On June 9, 1998, the Company issued approximately 12,204 shares of its common stock to U.S. Office Products, which then distributed such shares to its shareholders in the ratio of one share of Company common stock for every nine shares of U.S. Office Products common stock held by each shareholder. The share data reflected in the accompanying financial statements for the periods prior to the Distribution represents the historical share data for U.S. Office Products for the period or as of the date indicated, retroactively adjusted to give effect to the one for nine distribution ratio.

Reclassifications

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

NOTE 4—BUSINESS COMBINATIONS

In fiscal 2000, the Company acquired 100% of a company, which was accounted for under the purchase method of accounting, for an aggregate purchase price of $2,353, consisting of $1,175 of cash and 57 shares of common stock with a market value of $1,178, resulting in goodwill of $1,934, which will be amortized over 40 years. During fiscal 2000, the Company also purchased certain assets which represented a portion of another existing business for $117. This transaction resulted in goodwill of $280. The results of these acquisitions have been included in the Company’s results from their dates of acquisition. The pro-forma results of the later transaction are not included in the table below due to immateriality.

In fiscal 1999, the Company made five acquisitions accounted for under the purchase method of accounting for an aggregate purchase price of $127,824, consisting of $122,337 of cash and 250 shares of common stock with a market value of $5,487. The total assets related to these five acquisitions were $219,900, including goodwill of $103,455. The results of these acquisitions have been included in the Company's results from their respective dates of acquisition.

In fiscal 1998, the Company made eight acquisitions accounted for under the purchase method of accounting for an aggregate purchase price of $99,236, consisting of $95,670 of cash and U.S. Office Products common stock with a market value of $3,566. The total assets related to these eight acquisitions were $125,595, including goodwill of $80,359. The results of these acquisitions have been included in the Company's results from their respective dates of acquisition.

The following presents the unaudited pro forma results of operations of the Company for the fiscal years ended April 29, 2000, and April 24, 1999, and includes the Company's historical consolidated results of operations and the results of the companies acquired in fiscal 2000 and fiscal 1999 as if all such purchase acquisitions had been made at the beginning of fiscal 1999. The results presented below include certain pro forma adjustments to reflect the amortization of intangible assets and the inclusion of a federal income tax provision on all earnings:

(In Thousands, Except Per Share Amounts)

	For the Fiscal Year Ended	
	April 29, 2000 (53 weeks)	April 24, 1999 (52 weeks)
Revenues	$ 639,271	$ 632,380
Net income	18,236	9,347
Net income per share:		
Basic	$ 1.05	$ 0.62
Diluted	$ 1.05	$ 0.62

The unaudited pro forma results of operations are prepared for comparative purposes only and do not necessarily reflect the results that would have occurred had the acquisitions occurred at the beginning of fiscal 1999 or the results which may occur in the future.

NOTE 5—RESTRUCTURING COSTS

During the fourth quarter of fiscal 1998, the Company incurred restructuring costs of $2,491 to close redundant facilities and severance costs. This restructuring plan was completed by the end of fiscal 1999. The Company also incurred a strategic restructuring charge during the fourth quarter of fiscal 1998 of $1,000. This represented the transaction costs allocated to the Company under the distribution agreement entered into with U.S. Office Products and the other spin-off companies.

During the first quarter of fiscal 1999, the Company incurred a strategic restructuring charge of $1,074. This non-cash charge related to compensation expense attributed to the U.S. Office Product's stock option tender offer and sale of shares of Common Stock to some of the Company's executive management personnel. During the second quarter of fiscal 1999, the Company incurred restructuring costs of $4,200 to consolidate existing warehousing, customer service and sales operations. During the fiscal years ended April 29, 2000, and April 24,1999, the Company terminated 43 and 152 employees, respectively, under this plan.

Selected information related to the restructuring reserve for closing redundant facilities and consolidating existing warehousing, customer service and sales operations follows:

	Facility Closure and Consolidation	Severance and Terminations	Other Asset Write-downs and Costs	Total
Balance at April 26, 1997	$ -	$ -	$ 151	$ 151
Additions	728	214	1,549	2,491
Utilizations	(728)	-	(1,442)	(2,170)
Balance at April 25, 1998	-	214	258	472
Additions	1,300	2,100	800	4,200
Utilizations	(199)	(1,029)	(692)	(1,920)
Balance at April 24, 1999	$ 1,101	$ 1,285	$ 366	$ 2,752
Additions	-	-	-	-
Utilizations	(1,084)	(1,245)	(358)	(2,687)
Balance at April 29, 2000	$ 17	$ 40	$ 8	$ 65

(In Thousands, Except Per Share Amounts)

NOTE 6—PREPAID EXPENSES AND OTHER CURRENT ASSETS

Prepaid expenses and other current assets consist of the following:

	April 29, 2000	April 24, 1999
Deferred catalog costs	$ 14,742	$ 13,203
Assets held for sale	4,333	-
Other	9,589	4,129
Total prepaid expenses and other current assets	$ 28,664	$ 17,332

Deferred catalog costs represent costs which have been paid to produce Company catalogs which will be used in future periods. These deferred catalog costs will be expensed in the periods the catalogs are used.

NOTE 7—PROPERTY AND EQUIPMENT

Property and equipment consists of the following:

	April 29, 2000	April 24, 1999
Land	$ 2,540	$ 1,921
Projects in progress	2,954	1,607
Buildings and leasehold improvements	26,635	28,392
Furniture, fixtures, and other	17,848	12,283
Machinery and warehouse equipment	14,660	10,053
	64,637	54,256
Less: Accumulated depreciation	(12,912)	(11,951)
Net property and equipment	$ 51,725	$ 42,305

Depreciation expense for the fiscal years ended April 29, 2000 (53 weeks), April 24, 1999 (52 weeks), and April 25, 1998 (52 weeks) was $5,523, $4,948, and $2,500, respectively.

NOTE 8—INTANGIBLE ASSETS

Intangible assets consist of the following:

	April 29, 2000	April 24, 1999
Goodwill	$ 194,350	$ 195,060
Other	13,148	13,037
	207,498	208,097
Less: Accumulated amortization	(14,754)	(9,387)
Net intangible assets	$ 192,744	$ 198,710

Amortization expense for the fiscal years ended April 29, 2000 (53 weeks), April 24, 1999 (52 weeks), and April 25, 1998 (52 weeks) was $6,316, $4,656, and $2,061, respectively.

(In Thousands, Except Per Share Amounts)

NOTE 9—CREDIT FACILITIES

Long-Term Debt

Long-term debt consists of the following:

	April 29, 2000	April 24, 1999
Credit facility	$ 161,850	$ 172,500
Capital lease obligations	182	785
Other debt	148	-
	162,180	173,285
Less: Current maturities	(17,391)	(11,594)
Total long-term debt	$ 144,789	$ 161,691

On September 30, 1998, the Company entered into a five year secured $350,000 credit facility (the "credit facility") with a syndicate of financial institutions, led by Bank of America, N.A. as Agent, consisting of a $250,000 revolving loan and a $100,000 term loan. Interest on borrowings under the credit facility accrued through the third quarter of fiscal 1999 at a rate of, at the Company's option, either (i) LIBOR plus 2.375% or (ii) the lender's base rate plus a margin of 0.75%, plus a fee of 0.475% on the unborrowed amount under the revolving term loan. Subsequent to the third quarter of fiscal 1999, interest accrues at a rate of, at the Company's option, either (i) LIBOR plus an applicable margin of up to 2.000%, or (ii) the lender's base rate plus an applicable margin of up to 0.750%, plus a fee of up to 0.475% on the unborrowed amount under the revolving loan. The credit facility is secured by substantially all of the assets of the Company and contains terms and covenants typical of facilities of such size. The Company was in compliance with these covenants at April 29, 2000. At April 29, 2000, the balance outstanding under the credit facility was $161,850, including $75,600 and $86,250 outstanding under the revolving and term loans, respectively, and included seven eurodollar contracts, expiring within 89 days, totaling $151,250 at an average interest rate of 7.47% . The effective interest rate under the credit facility for fiscal 2000 was 7.89%, which includes the loan origination fee and commitment fee on unborrowed funds, and excludes the effect of the interest rate swap agreement disclosed below.

To manage interest rate risk, the Company entered into an interest rate swap agreement on October 28, 1998, with the Bank of New York covering $50,000 of the outstanding borrowings under the credit facility. The agreement fixes the 30 day LIBOR interest rate at 4.37% per annum on the $50,000 notional amount and has a three year term that may be canceled by the Bank of New York on the second anniversary. The floating LIBOR interest rate at April 29, 2000, was 6.18% and 4.91% at April 29. 2000, and April 24, 1999, respectively. The fair market value of the swap agreement was $566 at April 29, 2000.

Maturities of Long-Term Debt

Maturities on long-term debt, including capital lease obligations, are as follows:

2001	$ 17,391
2002	18,208
2003	29,082
2004	97,405
2005	16
Thereafter	78
Total maturities of long-term debt	$ 162,180

(In Thousands, Except Per Share Amounts)

The credit facility contains certain restrictive covenants, including limitations on the ability of the Company to pay dividends or redeem stock well as limitations on incurring debt, capital expenditures, mergers or consolidations, sale of assets and transactions with affiliates.

Payable to U.S. Office Products

On June 9, 1998, per the distribution agreement, the Company borrowed $83,300 from its line of credit to repay the remaining amounts due to U.S. Office Products.The average outstanding long-term payable to U.S. Office Products during the fiscal year ended April 24, 1999, was $6,871.

Interest was allocated to the Company by U.S. Office Products based upon the Company's average outstanding payable (short-term and long-term) balance with U.S. Office Products at U.S. Office Products' weighted average interest rate during such period. The Company's financial statements include allocations of interest expense from U.S. Office Products totaling $158 and $5,414 during the fiscal years ended April 24, 1999, and April 25, 1998, respectively.

NOTE 10—INCOME TAXES

The provision for income taxes consists of:

	For the Fiscal Year Ended		
	April 29, 2000 (53 weeks)	April 24, 1999 (52 weeks)	April 25, 1998 (52 weeks)
Income taxes currently payable:			
Federal	$ 7,371	$ 6,511	$ 3,646
State	2,003	1,740	907
	9,374	8,251	4,553
Deferred income tax expense	5,746	468	927
Total provision for income taxes	$ 15,120	$ 8,719	$ 5,480

(In Thousands, Except Per Share Amounts)

Deferred taxes are comprised of the following:

	April 29, 2000	April 24, 1999
Current deferred tax assets:		
Inventory	$ 3,001	$ 4,008
Allowance for doubtful accounts	716	858
Net operating loss carryforward	1,493	1,574
Accrued liabilities	620	820
Accrued restructuring	26	1,111
Charitable contribution carryforward	1,108	-
Total current deferred tax assets	6,964	8,371
Long-term deferred tax assets (liabilities):		
Net operating loss carryforward	4,097	4,694
Property and equipment	(1,200)	(476)
Intangible assets	(1,636)	(408)
Unrealized loss on investment	600	-
Total long-term deferred tax assets (liabilities)	1,861	3,810
Net deferred tax assets	$ 8,825	$ 12,181

The Company has net operating loss carryforwards of approximately $14,710, on a consolidated basis, which expire during fiscal years 2011-2013. The carryforwards are also subject to an annual limitation on utilization pursuant to IRS Code Section 382 of approximately $3,900.

The Company's effective income tax rate varied from the U.S. federal statutory tax rate as follows:

	For the Fiscal Year Ended		
	April 29, 2000 (53 weeks)	April 24, 1999 (52 weeks)	April 25, 1998 (52 weeks)
U.S. federal statutory rate	35.0%	35.0%	34.0%
State income taxes, net of federal income tax benefit	4.6	5.2	6.6
Non-deductible goodwill	5.4	6.5	6.0
Non-deductible acquisition costs	-	-	3.3
Other	-	2.8	1.2
Effective income tax rate	45.0%	49.5%	51.1%

(In Thousands, Except Per Share Amounts)

NOTE 11—OPERATING LEASE COMMITMENTS

The Company leases various types of retail, warehouse and office facilities and equipment, furniture and fixtures under noncancelable lease agreements which expire at various dates. Future minimum lease payments under noncancelable operating leases are as follows:

2001	$ 4,483
2002	4,236
2003	3,358
2004	2,217
2005	1,754
Thereafter	1,670
Total minimum lease payments	$ 17,718

Rent expense for the fiscal years ended April 29, 2000 (53 weeks), April 24, 1999 (52 weeks), and April 25, 1998 (52 weeks), was $5,535, $4,498, and $3,389, respectively.

NOTE 12—COMMITMENTS AND CONTINGENCIES

Litigation

Under the terms of the agreement entered into between the Company and U.S. Office Products in connection with a strategic restructuring plan, the Company is obligated, subject to a maximum obligation of $1.75 million, to indemnify U.S. Office Products for certain liabilities incurred by U.S. Office Products prior to the Distribution, including liabilities under federal securities laws (the “Indemnification Obligation”). This Indemnification Obligation is reduced by any insurance proceeds actually recovered with respect to the Indemnification Obligation and is shared on a pro rata basis with the other three divisions of U.S. Office Products which were spun-off from U.S. Office Products in connection with the U.S. Office Products comprehensive restructuring.

U.S. Office Products has been named a defendant in various class action lawsuits. These lawsuits generally allege violations of federal securities laws by U.S. Office Products and other named defendants during the months preceding the Strategic Restructuring Plan. The Company has not received any notice or claim from U.S. Office Products alleging that these lawsuits are within the scope of the Indemnification Obligation, but the Company believes that certain liabilities and costs associated with these lawsuits (up to a maximum of $1.75 million) are likely to be subject to the Company’s Indemnification Obligation. Nevertheless, the Company does not presently anticipate that the Indemnification Obligation will have a material adverse effect on the Company. Thus, due to the preliminary nature of this action, it is not possible at this time to assess the outcome of the claims. In accordance with SFAS No. 5, “Accounting for Contingencies”, no provision has been recorded in the accompanying financial statements.

The Company is, from time to time, a party to litigation arising in the normal course of its business. Management believes that none of this litigation will have a material adverse effect on the financial position, results of operations or cash flows of the Company.

Postemployment Benefits

The Company has entered into employment agreements with several employees that would result in payments to these employees upon a change of control or certain other events. No amounts have been accrued at April 29, 2000, April 24, 1999 or April 25, 1998 related to these agreements, as no change of control has occurred.

Distribution

At the date of the Distribution, School Specialty, U.S. Office Products and the other spin-off companies entered into a distribution agreement, tax allocation agreement, and an employee benefits agreement. The spin-off companies entered into a tax indemnification agreement and may enter into other agreements, including agreements relating to referral of customers to one another. These agreements provide, among other things, for U.S. Office Products and School Specialty to indemnify each other from tax and other liabilities relating to their respective businesses prior to and following the Distribution. Certain of the obligations of School Specialty and the other spin-off companies to indemnify U.S. Office Products are jointly and severally. Therefore, if one of the other spin-off companies fails to satisfy its indemnification obligations to U.S. Office Products when such a loss occurs, School Specialty may be required to reimburse U.S. Office Products for all or a portion of the losses that otherwise would have been allocated to other spin-off companies. In addition, the agreements allocate liabilities, including general corporate and securities liabilities of U.S. Office Products not specifically related to the school supplies business, between U.S. Office Products and the Company and the other spin-off companies. The terms of the agreements that will govern the relationship between School Specialty and U.S. Office Products were established by U.S. Office Products in consultation with School Specialty's management prior to the Distribution while School Specialty was a wholly-owned subsidiary of U.S. Office Products.

NOTE 13—EMPLOYEE BENEFIT PLANS

On June 9, 1998, the Company implemented the School Specialty, Inc. 401(k) Plan (the “Company 401(k) Plan”) which allows employee contributions in accordance with Section 401(k) of the Internal Revenue Code. The Company matches a portion of employee contributions and all full-time employees are eligible to participate in the Company 401(k) Plan after 90 days of service. In fiscal 2000 and fiscal 1999 the Company’s matching contribution expense was $564 and $416, respectively. Prior to June 9, 1998 the Company participated in the U.S. Office Products 401(k) Retirement Plan (the "401(k) Plan"), which was similar to the plan adopted by the Company.

Certain subsidiaries of the Company had, prior to implementation of the Company 401(k) Plan, qualified defined contribution benefit plans, which allow for voluntary pre-tax contributions by the employees. The subsidiaries paid all general and administrative expenses of the plans and in some cases made matching contributions on behalf of the employees.

NOTE 14—STOCKHOLDERS’ EQUITY

Earnings Per Share

Basic EPS excludes dilution and is computed by dividing income available to common shareholders by the weighted average number of common shares outstanding for the period. Diluted EPS reflects the potential dilution that could occur if securities or other contracts to issue common stock were exercised or converted into common stock. The following information presents the Company's computations of basic and diluted EPS for the periods presented in the consolidated statement of income.

(In Thousands, Except Per Share Amounts)

	Income (Numerator)	Shares (Denominator)	Per Share Amount
Fiscal 2000 (53 weeks):			
Basic EPS	$ 18,515	17,429	$ 1.06
Effect of dilutive employee stock options	-	51	
Diluted EPS	$ 18,515	17,480	$ 1.06
Fiscal 1999 (52 weeks):			
Basic EPS	$ 8,896	14,690	$ 0.61
Effect of dilutive employee stock options	-	150	
Diluted EPS	$ 8,896	14,840	$ 0.60
Fiscal 1998 (52 weeks):			
Basic EPS	$ 5,239	13,284	$ 0.40
Effect of dilutive employee stock options	-	263	
Diluted EPS	$ 5,239	13,547	$ 0.39

The Company had additional employee stock options outstanding during the periods presented that were not included in the computation of diluted EPS because they were anti-dilutive.

Capital Contribution by U.S. Office Products

During fiscal 1999 and fiscal 1998, U.S. Office Products contributed $7,217 and $81,332, respectively, of capital to the Company. The contribution reflects the forgiveness of intercompany debt by U.S. Office Products, as it was agreed that the Company would be allocated only $80,000 of debt plus the amount of any additional debt incurred after January 12, 1998, in connection with the acquisition of entities that became subsidiaries of the Company. The total debt allocated to the Company at the time of the Distribution was $83,300.

Stock Offerings

On June 9, 1998, the Company issued 2,125 shares in conjunction with its IPO. In an offering concurrent with the IPO, management acquired 250 shares. The total net proceeds to the Company from the offerings was $32,736.

On April 16, 1999, the Company issued 2,400 shares in conjunction with a secondary public offering receiving net proceeds of $40,820. On May 17, 1999, the underwriters of the Company's secondary offering exercised their over allotment option for 151 shares of Company stock at $17.25 per share for net proceeds of $2,225.

Employee Stock Plans

On June 10, 1998, the Board of Directors approved the School Specialty, Inc. 1998 Stock Incentive Plan (the "Plan"). The purpose of the Plan is to provide officers, key employees and consultants with additional incentives by increasing their ownership interests in the Company. The maximum number of options available for grant under the Plan, is equal to 20% of the Company's outstanding common stock. The maximum number of options available for grant in any fiscal year under the Plan is 1,200 shares. Prior to the approval of the Plan, the Company had stock options outstanding under the U.S. Office Products 1994 Long-Term Compensation Plan. The Company replaced the options to purchase shares of common stock of U.S. Office Products held by employees with options issued under the Plan to purchase shares of common stock of the Company. In order to keep the option holders in the same economic position immediately before and after the Distribution, the number of U.S. Office Products options held by Company personnel was multiplied by 0.903 and the exercise price of those options was divided by 0.903 for purposes of the replacement options. The vesting provisions and option period of the original grants were not changed. All option data reflected below has been retroactively restated to reflect the effects of the Distribution.

(In Thousands, Except Per Share Amounts)

The Company accounts for options issued in accordance with APB Opinion No. 25. Accordingly, because the exercise prices of the options equal the market price on the date of grant, no compensation expense has been recognized for the options granted. Had compensation cost for the Company's stock options been recognized based upon the fair value of the stock options on the grant date under the methodology prescribed by SFAS No. 123 "Accounting for Stock Based Compensation", the Company's net income and net income per share would have been impacted as indicated in the following table.

	For the Fiscal Year Ended		
	April 29, 2000 (53 weeks)	April 24, 1999 (52 weeks)	April 25, 1998 (52 weeks)
Net income (loss):			
As reported	$18,515	$ 8,896	$ 5,239
Pro forma	14,954	(1,737)	4,436
Net income (loss) per share:			
As reported:			
Basic	$ 1.06	$ 0.61	$ 0.40
Diluted	$ 1.06	$ 0.60	$ 0.39
Pro forma:			
Basic	$ 0.86	$ (0.12)	$ 0.33
Diluted	$ 0.86	$ (0.12)	$ 0.33

The fair value of options granted (which is amortized to expense over the option vesting period in determining the pro forma impact) is estimated on the date of grant using the Black-Scholes option pricing model with the following weighted average assumptions:

	For the Fiscal Year Ended		
	April 29, 2000	April 25, 1999	April 24, 1998
Expected life of option	7 years	7 years	7 years
Risk free interest rate	6.49%	5.50%	6.35%
Expected volatility of stock	67.14%	59.00%	44.10%

The weighted-average fair value of options granted was $11.45, $10.23, and $9.75 for fiscal 2000, 1999, and 1998, respectively.

(In Thousands, Except Per Share Amounts)

A summary of option transactions follows:

	Options Outstanding		Options Exercisable	
	Options	Weighted-Average Exercise Price	Options	Weighted-Average Exercise Price
Balance at April 26, 1997	211	$ 26.93		
Granted	257	18.01		
Canceled	(26)	25.45		
Balance at April 25, 1998	442	21.83	46	$27.14
Granted	2,031	15.86		
Exercised	(82)	20.62		
Canceled	(25)	26.49		
Balance at April 24, 1999	2,366	$ 16.70	118	$23.39
Granted	803	16.23		
Exercised	(55)	16.21		
Canceled	(50)	20.20		
Balance at April 29, 2000	3,064	$ 16.53	1,973	$16.20

The following table summarizes information about stock options outstanding at April 29, 2000:

	Options Outstanding			Options Exercisable	
Range of Exercise Prices	Options	Weighted-Average Life	Weighted-Average Exercise Price	Options	Weighted-Average Exercise Price
$12.00 - $15.00	325	9.14	$14.48	--	--
$15.50 - $15.50	1,748	8.11	15.50	1,724	$15.50
$15.63 - $19.93	798	9.01	17.51	145	17.33
$21.78 - $29.43	193	7.13	25.26	104	26.34
	3,064	8.40	$16.53	1,973	$16.20

Options granted are generally exercisable beginning one year from the date of grant in cumulative yearly amounts of 25% of the shares under option and generally expire ten years from the date of grant. Options granted to directors and non-employee officers of the Company vest over a three year period, 20% after the first year, 50% (cumulative) after year two and 100% (cumulative) after the third year.

As of the date of Distribution, Jonathan J. Ledecky, a member of the Company’s Board of Directors and formerly the Chairman and Chief Executive Officer of U.S. Office Products, received 914,079 shares under an option grant with an exercise price of $15.50. This grant represented 7.5% of the outstanding Company stock as of the date of Distribution. The options were exercisable in full on June 10, 1999.

Immediately following the effective date of the registration statements filed in connection with the IPO and the Distribution, the Company's Board of Directors granted 850,083 options, covering 7% of the outstanding shares of the Company's common stock, to certain executive management personnel (excluding the 7.5% granted to Mr. Ledecky). The options granted were granted under the Plan and have a per share exercise of $15.50 and were exercisable in full on June 10, 1999.

Total options available for grant under the Plan are equal to 20% of the outstanding shares of the Company's common stock.

NOTE 15—SEGMENT INFORMATION

During the third quarter of fiscal 2000, the Company modified its segment reporting by identifying information for a third business segment, the Internet business segment. This segment includes business generated by products supplied through the Internet and products supplied for use with the Internet. Effective October 24, 1999, the Company began to separately track financial information for this segment, and assign certain management personnel the responsibility for monitoring this information and focusing on the expansion of the Company's Internet business. The Company is unable to segregate information for the Internet business segment for fiscal 1998, 1999, and the first two quarters of fiscal 2000; therefore, results for this segment prior to the third and fourth quarters of fiscal 2000 are included in both the Traditional and Specialty business segments.

The Company's business activities are organized around three principal business segments, Traditional, Specialty and Internet. Both internal and external reporting conform to this organizational structure, with no significant differences in accounting policies applied. The Company evaluates the performance of its segments and allocates resources to them based on revenue growth and profitability. While the three segments serve a similar customer base, notable differences exist in products, gross margin and revenue growth rate. Products supplied within the Traditional segment include consumables (consisting of classroom supplies, instructional materials, educational games, art supplies and school forms), school furniture and indoor and outdoor equipment. Products supplied within the Specialty segment target specific educational disciplines, such as art, industrial arts, physical education, sciences, library and early childhood. The Internet segment supplies products from both the Traditional and Specialty segments through the Internet. In addition, the Internet segment includes products supplied for customer use with the Internet (i.e., filtering software for the Internet).

(In Thousands, Except Per Share Amounts)

The following table presents segment information.

	For the Fiscal Year Ended		
	April 29, 2000 (53 weeks)	April 24, 1999 (52 weeks)	April 28, 1998 (52 weeks)
Revenues:			
Traditional	$ 386,715	$ 339,031	$ 201,770
Specialty	252,556	182,673	108,685
Internet	5,607	-	-
Inter-company revenue elimination	(5,607)	-	-
Total	$ 639,271	$ 521,704	$ 310,455
Operating profit (loss) and income before taxes: *(a)*			
Traditional	$ 34,653	$ 21,222	$ 10,348
Specialty	28,573	20,944	11,054
Internet	(3,261)	-	-
Total	59,965	42,166	21,402
General corporate expense	11,323	6,904	1,663
One-time charges	-	5,274	3,491
Interest expense and other	15,007	12,373	5,529
Income before taxes	$ 33,635	$ 17,615	$ 10,719
Identifiable assets (at year end):			
Traditional	$ 246,006	$ 247,204	$ 121,475
Specialty	174,603	164,320	98,252
Internet	10,039	-	-
Total	430,648	411,524	219,727
Corporate assets	24,201	26,184	4,002
Total	$ 454,849	$ 437,708	$ 223,729
Depreciation and amortization:			
Traditional	$ 6,129	$ 6,043	$ 2,433
Specialty	4,499	3,058	1,814
Internet	711	-	-
Total	11,339	9,101	4,247
Corporate	500	503	314
Total	$ 11,839	$ 9,604	$ 4,561
Expenditures for property and equipment:			
Traditional	$ 6,215	$ 782	$ 2,847
Specialty	5,284	2,326	447
Internet	3,280	-	-
Total	14,779	3,108	3,294
Corporate	2,572	1,764	264
Total	$ 17,351	$ 4,872	$ 3,558

(a) Operating profit is defined as operating income before nonrecurring acquisition and restructuring costs.

(In Thousands, Except Per Share Amounts)

NOTE 16—QUARTERLY FINANCIAL DATA (UNAUDITED)

The following presents certain unaudited quarterly financial data for fiscal 2000 and fiscal 1999:

	Fiscal Year Ended April 29, 2000				
	First (13 weeks)	Second (13 weeks)	Third (13 weeks)	Fourth (14 weeks)	Total (53 weeks)
Revenues	$ 194,299	$ 231,588	$ 97,244	$ 116,140	$ 639,271
Gross profit	72,879	82,913	33,429	44,007	233,228
Operating income (loss)	24,564	26,701	(2,245)	(378)	48,642
Net income (loss)	11,364	12,184	(3,032)	(2,001)	18,515
Per share amounts:					
Basic	$ 0.65	$ 0.70	$ (0.17)	$ (0.11)	$ 1.06
Diluted	$ 0.65	$ 0.70	$ (0.17)	$ (0.11)	$ 1.06

	Fiscal Year Ended April 24, 1999				
	First (13 weeks)	Second (13 weeks)	Third (13 weeks)	Fourth (13 weeks)	Total (52 weeks)
Revenues	$ 126,657	$ 212,316	$ 85,359	$ 97,372	$ 521,704
Gross profit	44,042	70,761	28,093	37,025	179,921
Operating income (loss)	13,326	18,674	(2,383)	371	29,988
Net income (loss)	6,563	7,430	(3,298)	(1,799)	8,896
Per share amounts:					
Basic	$ 0.45	$ 0.51	$ (0.23)	$ (0.12)	$ 0.61
Diluted	$ 0.44	$ 0.51	$ (0.23)	$ (0.12)	$ 0.60

The summation of quarterly net income per share may not equate to the calculation for the full fiscal year as quarterly calculations are performed on a discrete basis.

NOTE 17—RELATED PARTY TRANSACTION

On October 1, 1999, the Company purchased a combined warehouse and distribution facility in Appleton, Wisconsin. Previously, the Company leased this facility. The purchase price was $2,600, the fair market value of the property as determined by an independent appraisal, and was paid to the owner of the facility, which is a corporation owned by three shareholders, two of whom are related to certain executive officers of the Company.

NOTE 18—SUBSEQUENT EVENTS

On June 30, 2000, the Company purchased the net assets of Global Video, Inc., for $32,000 plus a $3,000 targeted performance payment to be determined on or about the first anniversary of the transaction.

Item 9. Change in and Disagreements with Accountants on Accounting and Financial Disclosure

None.

PART III

Item 10. Directors and Executive Officers of the Registrant

(a) *Executive Officers.* Reference is made to "Executive Officers of the Registrant" in Part I hereof.

(b) *Directors.* The information required by this Item is set forth in our Proxy Statement for the Annual Meeting of Stockholders to be held on August 29, 2000, under the caption "Election of Directors," which information is incorporated by reference herein.

(c) *Section 16 Compliance.* The information required by this Item is set forth in our Proxy Statement for the Annual Meeting of Stockholders to be held on August 29, 2000, under the caption "Section 16(a) Beneficial Ownership Reporting Compliance," which information is incorporated by reference herein.

Item 11. Executive Compensation

The information required by this Item is set forth in our Proxy Statement for the Annual Meeting of Stockholders to be held on August 29, 2000, under the captions "Executive Compensation," "Employment Contracts and Related Matters," "Director Compensation and Other Arrangements," "Compensation Committee Report," "Compensation Committee Interlocks and Insider Participation," and "Performance Graph," which information is incorporated by reference herein.

Item 12. Security Ownership of Certain Beneficial Owners and Management

The information required by this Item is set forth in our Proxy Statement for the Annual Meeting of Stockholders to be held on August 29, 2000, under the caption "Security Ownership of Management and Certain Beneficial Owners," which information is incorporated by reference herein.

Item 13. Certain Relationships and Related Transactions

The information required by this Item is set forth in our Proxy Statement for the Annual Meeting of Stockholders to be held on August 29, 2000, under the captions "Certain Relationships and Related Transactions" and "Director Compensation and Other Arrangements."

PART IV

Item 14. <u>Exhibits, Financial Statement Schedules, and Reports on Form 8-K</u>

(a)(1) Financial Statements.

Consolidated Financial Statements

Report of Independent Accountants

Consolidated Balance Sheet as of April 29, 2000, and April 24, 1999

Consolidated Statement of Operations for the fiscal years ended April 29, 2000 (53 weeks), April 24, 1999 (52 weeks), and April 25, 1998 (52 weeks)

Consolidated Statement of Stockholders' Equity for the fiscal years ended April 29, 2000 (53 weeks), April 24, 1999 (52 weeks), and April 25, 1998 (52 weeks)

Consolidated Statement of Cash Flows for the fiscal years ended April 29, 2000 (53 weeks), April 24, 1999 (52 weeks), and April 25, 1998 (52 weeks)

Notes to Consolidated Financial Statements

(a)(2) Financial Statement Schedule.

Schedule for the fiscal years ended April 29, 2000 (53 weeks), April 24, 1999 (52 weeks), and April 25, 1998 (52 weeks): Schedule II – Valuation and Qualifying Accounts.

(a)(3) Exhibits.

See (c) below.

(b) Reports on Form 8-K.

None.

(c) Exhibits.

See the Exhibit Index, which is incorporated by reference herein.

(d) Financial Statements Excluded from Annual Report to Shareholders.

Not applicable.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has caused this report to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of Appleton, State of Wisconsin, on July 11, 2000.

SCHOOL SPECIALTY, INC.

By: /s/ Daniel P. Spalding
Daniel P. Spalding, Chief Executive Officer

Each person whose signature appears below hereby constitutes and appoints Daniel P. Spalding and Mary M. Kabacinski, and each of them, as his or her true and lawful attorney-in-fact and agent, with full power of substitution, to sign on his or her behalf individually and in the capacity stated below and to perform any acts necessary to be done in order to file any and all amendments to this Annual Report on Form 10-K, and to file the same, with all exhibits thereto and all other documents in connection therewith and each of the undersigned does hereby ratify and confirm all that said attorney-in-fact and agent, or his substitutes, shall do or cause to be done by virtue thereof.

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed by the following persons in the capacities and on the dates indicated below.

Name	Title	Date
/s/ Daniel P. Spalding Daniel P. Spalding	Chief Executive Officer (Principal Executive Officer) and Director	July 11, 2000
/s/ Mary M. Kabacinski Mary M. Kabacinski	Chief Financial Officer (Principal Financial and Accounting Officer)	July 11, 2000
/s/ David J. Vander Zanden David J. Vander Zanden	President, Chief Operating Officer and Director	July 11, 2000
/s/ Jonathan J. Ledecky Jonathan J. Ledecky	Director	July 11, 2000
/s/ Rochelle Lamm Rochelle Lamm	Director	July 11, 2000
/s/ Leo C. McKenna Leo C. McKenna	Director	July 11, 2000
/s/ Jerome M. Pool Jerome M. Pool	Director	July 11, 2000

INDEX TO EXHIBITS

Exhibit Number	Document Description
3.1	Restated Certificate of Incorporation.[1]
3.2	Amended and Restated Bylaws.[1]
4.1	Form of Stock Certificate.[1]
10.1	Distribution Agreement among U.S. Office Products Company, Workflow Management, Inc., Aztec Consulting, Inc., Navigant International, Inc. and School Specialty, Inc.[2]
10.2	Tax Allocation Agreement among U.S. Office Products Company, Workflow Management, Inc., Aztec Technology Partners, Inc., Navigant International, Inc. and School Specialty, Inc.[1]
10.3	Tax Indemnification Agreement among Workflow Management, Inc., Aztec Technology Partners, Inc., Navigant International, Inc. and School Specialty, Inc.[2]
10.4	Employee Benefits Agreement among Workflow Management, Inc., Aztec Technology Partners, Inc., Navigant International, Inc. and School Specialty, Inc.[2]
10.5	Employment Agreement dated September 3, 1999 between Daniel P. Spalding and School Specialty, Inc.[3]
10.6	Employment Agreement dated September 3, 1999 between Mary M. Kabacinski and School Specialty, Inc.[3]
10.7	Employment Agreement dated September 3, 1999 between Donald J. Noskowiak and School Specialty, Inc.[3]
10.8	Employment Agreement dated June 30, 1998 between Roger D. Pannier and School Specialty, Inc.[4]
10.9	Employment Agreement dated March 2, 1999 between Peter Savitz and School Specialty, Inc.[4]
10.10	Employment Agreement dated March 29, 1999 between Brian Chapin and School Specialty, Inc.[4]
10.11	Employment Agreement dated July 26, 1996 between Donald Ray Pate, Jr. and The Re-Print Corp.[5]
10.12(a)	Employment Agreement dated June 27, 1997 between Richard H. Nagel and Sax Arts and Crafts, Inc.[5]
10.12(b)	Covenant Not to Compete Agreement dated June 27, 1997 between Richard H. Nagel and Sax Arts and Crafts, Inc.[9]
10.13	Employment Agreement between David Vander Zanden and School Specialty, Inc.[6]
10.14	Employment Agreement between School Specialty, Inc. and Jonathan J. Ledecky.[6]
10.15	Amended Services Agreement dated as of June 8, 1998 between U.S. Office Products and Jonathan J. Ledecky.[7]
10.16	Amended and Restated 1998 Stock Incentive Plan.

Exhibit Number	Document Description
10.17	JuneBox.com, Inc. 2000 Equity Incentive Plan.
10.18	Amended and Restated Credit Agreement dated as of September 30, 1998 among School Specialty, Inc., certain subsidiaries and affiliates of School Specialty, Inc., the lenders named therein and Nationsbank, N.A., Bank One, Wisconsin and U.S. Bank National Association.[8]
10.19	Lease dated as of June 30, 1998 between Roger D. Pannier and Pamela S. Pannier as lessor and School Specialty, Inc. as lessee.
10.20	Lease dated as of July 1, 1990 between Larry Joseph and Peter Savitz Partners as lessor and Select Service & Supply, Co., Inc. as lessee including Sublease Agreement and amendments thereto.
21.1	Subsidiaries of School Specialty, Inc.
23.1	Consent of PricewaterhouseCoopers LLP.
27.1	Financial Data Schedule.
99.1	Schedule II - Valuation and Qualifying Accounts.

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[1] Incorporated by reference to School Specialty's Pre-Effective Amendment No. 3 to the Registration Statement on Form S-1 filed with the SEC on June 4, 1998; Registration No. 333-47509.

[2] Incorporated by reference to School Specialty's Pre-Effective Amendment No. 2 to the Registration Statement on Form S-1 filed with the SEC on May 18, 1998; Registration No. 333-47509.

[3] Incorporated by reference to School Specialty's Form 10-Q for the period ended October 23, 1999, as filed with the SEC on December 7, 1999.

[4] Incorporated by reference to School Specialty's Form 10-Q for the period ended July 24, 1999, as filed with the SEC on September 7, 1999.

[5] Incorporated by reference to School Specialty's Pre-Effective Amendment No. 1 to the Registration Statement on Form S-1 filed with the SEC on May 6, 1998; Registration No. 333-46537.

[6] Incorporated by reference to School Specialty's Annual Report on Form 10-K filed with the SEC on July 24, 1998.

[7] Incorporated by reference to School Specialty's Pre-Effective Amendment No. 4 to the Registration Statement on Form S-1 filed with the SEC on June 9, 1998; Registration No. 333-47509.

[8] Incorporated by reference to School Specialty's Form 10-Q for the period ended January 23, 1999, as filed with the SEC on March 1, 1999.

[9] Incorporated by reference to School Specialty's Registration Statement on Form S-1 filed with the SEC on March 1, 1999; Registration No. 333-73103.

Directors

Daniel P. Spalding
Chairman, Chief Executive Officer
School Specialty, Inc.

David J. Vander Zanden
President, Chief Operating Officer
School Specialty, Inc.

Jonathan J. Ledecky
Former Chairman, Chief Executive Officer
Building O-N-E Services Corporation

Leo C. McKenna
Financial Consultant

Rochelle Lamm
Chairman, Chief Executive Officer
Precision Marketing Partners, LLC

Jerome M. Pool
Former President
Jantzen, Inc.

Officers

Daniel P. Spalding
Chairman,
Chief Executive Officer

David J. Vander Zanden
President,
Chief Operating Officer

Mary M. Kabacinski
Executive Vice President,
Chief Financial Officer

Donald J. Noskowiak
Vice President Finance/
Business Development

Michael J. Killoren
Executive Vice President,
Chief Information Officer for
JuneBox.com

Melvin D. Hilbrown
Executive Vice President,
Managing Director for Gresswell

Richard H. Nagel
Executive Vice President for
Sax Arts & Crafts

Donald Ray Pate, Jr.
Executive Vice President for
ClassroomDirect.com

Ronald E. Suchodolski
Executive Vice President for
Childcraft

Garett H.D. Reid
Executive Vice President for
Frey Scientific

Peter S. Savitz
Executive Vice President for
Sportime

Brian E. Chapin
Executive Vice President for
SmartStuff Software

Joseph F. Franzoi IV
Secretary and Corporate Counsel

Investor Information

Corporate Headquarters

School Specialty, Inc.
1000 North Bluemound Drive
Appleton, Wisconsin 54914
Phone: 920-734-5712
Fax: 920-882-5863

Stock Listing

School Specialty's common stock is traded on Nasdaq under the symbol SCHS.

Stockholder Information

For information about School Specialty, including copies of annual reports, forms 10-K and 10-Q and other available information, please contact:
Mary M. Kabacinski
Executive Vice President and CFO
Phone: 920-882-5852
Fax: 920-882-5863
Email: mkabacinski@schoolspecialty.com

Dividend Policy

School Specialty's present policy is to retain earnings to finance its growth. As a result, the company does not expect to pay cash dividends in the foreseeable future.

Annual Meeting

All stockholders are welcome to attend School Specialty's annual meeting. It will be held at 10:00 a.m. Central Time on August 29, 2000, at the Park Plaza Paper Valley Hotel in Appleton, Wisconsin.

Websites

Investor information can be found under that title at School Specialty's website: *www.schoolspecialty.com*. You also are invited to visit *www.junebox.com* and *www.classroomdirect.com* to see how School Specialty assists school business officials, teachers and consumers who purchase educational products and materials.

Transfer Agent and Registrar

American Stock Transfer & Trust Company
40 Wall Street
New York, New York 10005

Independent Auditors

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650 Third Avenue South, Suite 1300
Minneapolis, Minnesota 55402

Legal Counsel

Godfrey & Kahn, S.C.
780 North Water Street
Milwaukee, Wisconsin 53202

Franzoi & Franzoi, S.C.
514 Racine Street
Menasha, Wisconsin 54952

School Specialty

CHILDCRAFT® Education Corp.

Sax

frey scientific

brodhead garrett

SPORTIME

SmartStuff™ SOFTWARE

CLASSROOM DIRECT.COM

JuneBox.com

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