UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

[✓] ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934: For the fiscal year ended April 28, 2007

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)

Wisconsin	**39-0971239**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
W6316 Design Drive Greenville, Wisconsin	**54942**
(Address of principal executive offices)	(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, $0.001 par value
(Title of class)

Indicate by check mark if the Registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.
Yes ✓ No ___

Indicate by check mark if the Registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.
Yes ___ No ✓

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 whether the Registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act. (Check one):
Large accelerated filer ✓ Accelerated filer ___ Non-accelerated filer ___

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. [ ]

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).
Yes ___ No ✓

The aggregate market value of the voting stock held by nonaffiliates of the Registrant, as of October 28, 2006, was approximately $861,869,465. As of June 1, 2007, there were 21,185,090 shares of the Registrant's common stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Proxy Statement for the Annual Meeting of Shareholders to be held on August 29, 2007 are incorporated by reference into Part III.

PART I

Item 1. Business

Unless the context requires otherwise, all references to "School Specialty," the "Company," "we" or "our" refer to School Specialty, Inc. and its subsidiaries. Our fiscal year ends on the last Saturday in April of 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 28, 2007 is referred to as "fiscal 2007"). Note that fiscal 2005 had 53 weeks, while all other fiscal years reported and referenced represent 52 weeks.

Company Overview

School Specialty is a leading education company providing products, programs and services that enhance student achievement and development. We are the largest provider of supplemental educational products and equipment to the pre-kindergarten through twelfth grade ("preK-12") education market in the United States and Canada. We believe we are more than seven times larger than our nearest competitor in the supplemental educational products and equipment market. With the industry's broadest offering of more than 100,000 products, we are able to be the single source supplier for substantially all of our customers' supplemental educational product needs. Over 40% of our revenues are derived from our proprietary products. We reach our customers through the industry's largest sales force of approximately 600 professionals, more than 47 million annual catalog mailings and our proprietary e-commerce websites. In fiscal 2007, we sold products to approximately 80% of the 116,700 schools in the United States and we believe we reached substantially all of the 3.7 million teachers in those schools. Our leading market position has been achieved by emphasizing high-quality products, superior order fulfillment and exceptional customer service. For fiscal 2007, we generated revenues of $1.043 billion.

We service the supplemental educational products market through two product categories, as described below. Financial information about our segments is included in the notes under Item 8, Financial Statements and Supplementary Data.

Specialty Products. Our Specialty products are value-added, curriculum- and age-focused products such as customized academic agendas, hands-on science education materials, arts and crafts materials and physical education and special needs equipment. Specialty products are sold to teachers and curriculum specialists to assist with educational development in the classroom. Our Specialty brands include Premier Agendas, Sportime, Childcraft Education, Delta Education, FOSS, Frey Scientific, Sax Arts & Crafts, School Specialty Publishing, Educator's Publishing Service ("EPS") and Califone. Our Specialty products accounted for 55% of our revenues for fiscal 2007.

Essentials Products. Our Essentials products include a comprehensive line of everyday consumables, instructional materials, art supplies, educational games, school forms, school furniture and outdoor equipment. Essentials products are typically sold to administrators of school districts and individual schools. We market our Essentials products under the Education Essentials and School Smart brands, along with many well recognized brand name products that we distribute. Our Essentials products accounted for 45% of our revenues for fiscal 2007.

Supplemental educational product procurement decisions are generally made at the classroom level by teachers and curriculum specialists and at the district and school levels by administrators. To best reach these buyer groups, we developed an innovative two-tiered sales and marketing approach. We target classroom level decision makers through a "bottom up" marketing approach for Specialty products, and we target school districts and school administrators through a "top down" marketing approach for Essentials products. Our "bottom up" approach utilizes a Specialty sales force of approximately 250 professionals, over 150 individual Specialty catalogs and our brand-specific websites to deliver premium educational products to teachers and curriculum specialists. Our "top down" approach utilizes an Essentials sales force of approximately 330 professionals, our Education Essentials catalog and *School Specialty Online*, an e-commerce solution that enables us to tailor our product offerings and pricing to individual school districts and school administrators. This two-tiered approach is designed to maximize our customer coverage and sales penetration.

We have grown in recent years through acquisitions and internal growth. From fiscal 2003 through fiscal 2007, our historical revenues, including revenues from acquired businesses, increased from $844.4 million to $1.043 billion, representing a compound annual growth rate ("CAGR") of 5.4%. Our acquisition strategy has allowed us to solidify our leading position within the industry, enhance our product offering and leverage our national distribution network and market reach to operate more efficiently. In addition, our disciplined integration execution has consistently enabled us to reduce redundant costs, increase buying power and consolidate distribution facilities, resulting in improved profitability for the businesses we have acquired. We remain focused on organic growth and will continue to pursue selective acquisition opportunities that we believe will enhance our position as the leading provider of supplemental educational products in the United States and Canada. Our business is highly seasonal, with peak sales levels occurring from June through October.

School Specialty, Inc., founded in October 1959, was acquired by U.S. Office Products in May 1996. In June 1998, School Specialty was spun-off from U.S. Office Products in a tax-free transaction. Our common stock is listed on The Nasdaq Global Select Market under the symbol "SCHS." In August 2000, we reincorporated from Delaware to Wisconsin. Our principal offices are located at W6316 Design Drive, Greenville, Wisconsin 54942, and our telephone number is (920) 734-5712. Our general website address is *www.schoolspecialty.com*. You may obtain, free of charge, copies of this Annual Report on Form 10-K as well as our Quarterly Reports on Form 10-Q and our Current Reports on Form 8-K (and amendments to those reports) filed with, or furnished to, the Securities Exchange Commission as soon as reasonably practicable after we have filed or furnished such reports by accessing our website at http://www.schoolspecialty.com, selecting "Investor Information" and then selecting the "SEC Filings" link. Information contained in any of our websites is not deemed to be a part of this Annual Report.

On May 31, 2005, the Company announced that it had entered into an Agreement and Plan of Merger, as amended, dated as of May 31, 2005 (the "Merger Agreement"), with LBW Holdings, Inc. and LBW Acquisition, Inc. On October 25, 2005, a Termination and Release was entered into by and among the Company, LBW Holdings, Inc. and LBW Acquisition, Inc. pursuant to which the Merger Agreement was terminated by mutual agreement and the parties released each other from certain claims. No termination fees were payable by the Company or by LBW Holdings, Inc., and each party was responsible for its own merger-related expenses.

During fiscal 2006, the Company incurred $5.2 million of costs related to the terminated merger transaction consisting of accounting, legal and other transaction-related costs, including costs related to financial and legal advisors to the special committee of our Board of Directors. These costs have been included in the statement of operations for fiscal 2006.

Following the Company's announcement of the Merger Agreement on May 31, 2005, the Company was named as a defendant in three putative shareholder class actions. The complaints alleged that the Company and its directors breached fiduciary duties to the Company's shareholders by negotiating and agreeing to the transaction at a price that the plaintiffs claimed to be inadequate. On January 17, 2006, the three putative shareholder class actions were dismissed.

Industry Overview

The United States preK-12 education market is a large industry that has exhibited attractive and stable growth characteristics, despite fluctuations in the U.S. economy. For example, during the recessions of 1981-1983, 1991-1992 and 2001-2002, preK-12 education funding in the United States grew at CAGRs of 5.3%, 5.0% and 4.7%, respectively. Educational expenditures are expected to rise from $376.6 billion (in constant 2002-2003 dollars) in 2002 to $498.0 billion in 2014. Spending per student and student enrollment are the two primary drivers of future education expenditures, and are each predicted to steadily rise through 2014. Expenditures per student are predicted to increase from $7,901 in 2002 to $10,043 in 2014. Over that same time period, public and private preK-12 enrollment is projected to rise from 54.6 million to 56.7 million.

Schools are funded primarily by state and local governments and, to a much lesser extent, the federal government. All three sources raised their expenditures for K-12 education over the past year and are expected to increase funding to continue their emphasis on public education funding in the coming years. State budgets remain strong as a healthy economy prompted larger-than-expected tax receipts in fiscal 2007, setting the stage for reinvestment in

state programs, such as education. Federal funding of education has increased significantly since early 2002 when President Bush signed into law the *No Child Left Behind Act of 2001*, which was designed to improve student achievement in classrooms across the country. The fiscal 2007 federal budget was approved for $57.5 billion in discretionary spending for Department of Education programs, representing a 33% increase over 2001's appropriation.

Our focus within the United States preK-12 education market is on supplemental educational products and equipment. Our customers are teachers, curriculum specialists, individual schools and school districts who purchase products for school and classroom use. We believe that the supplemental educational products and equipment market has generally grown in line with education funding and represented a market in excess of $7 billion in 2005.

The supplemental educational products and equipment market is highly fragmented with approximately 3,300 companies providing products and equipment, a majority of which are family- or employee-owned, regional companies that generate annual revenues under $10 million. We believe the increasing customer demand for single source suppliers, prompt order fulfillment and competitive pricing are acting as catalysts for industry consolidation. School districts are increasingly decentralizing their purchasing, which increases schools' and teachers' roles in educational product procurement decisions. We believe these changes are driving above-average growth in the demand for curriculum- and age-focused Specialty products. We believe that these industry trends will have a favorable competitive impact on our business, as we believe we are well positioned to utilize our operational capabilities and broad product offering to meet evolving customer demands.

Recent Acquisitions

We have acquired nine businesses since May 2002. Purchase prices, net of cash acquired, ranged from $1 million to $270 million.

Fiscal 2006
The Speech Bin, Inc. On December 14, 2005, we acquired certain assets of The Speech Bin, Inc. ("Speech Bin") for an aggregate purchase price of $1 million. Speech Bin offers books, products and tools to help educators in the special needs market, focusing on speech and language. This business has been integrated into our Abilitations offering, giving Abilitations a focused vehicle to expand into this segment of the special needs market.

Delta Education, LLC. On August 31, 2005, we acquired all of the membership interests of Delta Education, LLC ("Delta") for $270 million (approximately $10 million of which was to fund above average seasonal working capital acquired). Delta is a leading provider of science education instructional materials for the preK-12 education market in the United States. The Delta acquisition positions us as a leading provider of highly differentiated instructional materials for the preK-12 education market in the United States, with a significant focus on elementary and secondary science, an area that supplements our existing range of product offerings. Consistent with our overall growth strategy, the Delta acquisition increases our revenue mix from proprietary and Specialty products. It also establishes us as the second largest provider of supplemental science education products. We integrated our Frey Scientific business into the Delta business, to form our Science business unit within the Specialty segment.

Fiscal 2005
The Guidance Channel, Inc. In September 2004 we acquired certain assets of The Guidance Channel, Inc. and its subsidiaries or related companies, for approximately $19 million. The Guidance Channel is an educational publishing and media company, providing children, students, parents and teachers with timely and effective tools that help with critical life choices. The Guidance Channel offers over 5,000 proprietary publications and products, including multimedia programs, videos, curricula, information handouts, therapeutic games and prevention-awareness items. This business has been integrated with Teacher's Media Company and Sunburst Visual Media in our School Specialty Media business unit within our Specialty segment.

Fiscal 2004
School Specialty Publishing. In January 2004 we acquired select assets of the Children's Publishing business of McGraw-Hill Education, a division of The McGraw-Hill Companies, for approximately $46 million. The Children's Publishing business, renamed School Specialty Publishing, develops, produces, markets and distributes

supplemental education materials (including literature, workbooks and manipulatives), to education companies, retailers and consumers. This business is reported as part of our Specialty segment. This acquisition included an operation based in the United Kingdom, which we sold in a stock transaction on February 29, 2004 for approximately $4 million.

Califone. In January 2004 we acquired Califone International, Inc. ("Califone") for an aggregate purchase price, net of cash acquired, of approximately $26 million. Califone is the leading developer of quality sound presentation systems including state of the art multimedia, audio-visual and presentation equipment for schools and industry. Califone markets primarily to education companies. This business is reported as a part of our Specialty segment.

Select Agendas. In May 2003 we acquired Select Agendas, a Canadian-based company that produces and markets student agendas, for an aggregate purchase price of approximately $17 million. The business was integrated with Premier Agendas and is reported as part of our Specialty segment.

Fiscal 2003

Sunburst Visual Media. In February 2003 we acquired the visual media division of Sunburst Technology Corporation ("Sunburst") for approximately $8 million. Sunburst is a leading developer and marketer of proprietary videos, DVDs and related curriculum materials covering the character education, health and guidance curriculums in K-12 schools. Sunburst has been integrated with Teacher's Media Company as a separate brand offering within our School Specialty Media business unit, within our Specialty segment.

J.L. Hammett. In August 2002 we acquired the remaining wholesale operations of J.L. Hammett ("Hammett") for approximately $14 million. The Hammett business acquired primarily marketed preK-12 educational products to charter schools and national early learning childhood centers. The business has been integrated into our Essentials and Specialty segments.

abc School Supply. In August 2002 we acquired abc School Supply and related affiliates ("abc"). abc, a producer and marketer of preK-8 educational products, was integrated as a separate brand offering into our Childcraft division within the Specialty segment and a portion was integrated into our Essentials segment. We paid approximately $30 million for abc and also assumed approximately $11 million of debt.

Competitive Strengths

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

Clear Market Leader in Fragmented Industry. We are the largest provider of supplemental educational products and equipment to the preK-12 education market in the United States and Canada, and we believe that we are more than seven times larger than our nearest competitor in this market. Within our industry, there are approximately 3,300 competitors, a majority of which are family or employee-owned, regional companies that generate annual revenues under $10 million. We believe that our significantly greater scale and scope of operations relative to our education competitors provide several competitive advantages including a broader product offering, significant purchasing power, a national distribution network and the ability to manage the seasonality and peak shipping requirements of the school purchasing cycle.

Stable Industry with Attractive Trends and Dynamics. Government funding for education is a consistently popular political issue enjoying broad-based voter support. From 1970 to 2003, preK-12 education funding in the United States grew steadily at a CAGR of 7.5%. Recent increases in state and local tax receipts, as well as strong federal support from the *No Child Left Behind Act of 2001*, have provided strong continued momentum for the education industry that we expect will continue into the 2007-08 school year. Supplemental educational products represent a small percentage of a school's annual budget and a large majority of these products are consumable, further limiting our industry's exposure to fluctuations in demand relative to other segments in the education market.

Largest Product Offering and Premier Brands. With over 100,000 items ranging from classroom supplies and furniture to playground equipment, we believe we are the only national provider of a full range of supplemental educational products and equipment to meet substantially all of the needs of schools and teachers in the preK-12

education market. We believe we have many of the most established brands in the industry that are recognized by educators across the country, with some brands more than 100 years old. We believe that the brand loyalty our products enjoy represents a significant competitive advantage. In addition, over 40% of our revenues are derived from our proprietary products. Our proprietary products typically generate higher margins than our non-proprietary products.

Unparalleled Customer Reach and Relationships. We have developed a highly integrated, two-tiered sales and marketing approach which we believe provides us with an unparalleled ability to reach teachers and curriculum specialists as well as school district and individual school administrators. We reach our customers through the industry's largest sales force of approximately 600 professionals, more than 47 million annual catalog mailings and our proprietary e-commerce websites. In fiscal 2007, we sold products to approximately 80% of the 116,700 schools in the United States and we believe we reached substantially all of the 3.7 million teachers in those schools. We utilize our extensive customer databases to selectively target the appropriate customers for our Specialty catalog offerings. Additionally, we have invested heavily in the development of our e-commerce websites, which provide broad product offerings and generate higher internet sales than any of our education competitors. Our internet revenues, which were approximately $175.5 million in fiscal 2007, have grown at a CAGR of 33.7% since fiscal 2003.

Ability to Effectively Integrate and Improve Operating Margins of Acquired Businesses. We have completed nine acquisitions since May 2002. We typically establish a 6- to 12-month target for our integration process for which we form a focused transition team. The transition team is assigned the responsibility of integrating the acquired entity's business systems, consolidating distribution centers, eliminating redundant expenses and any non-strategic product lines, as well as realizing sales and margin enhancements through cross merchandising and increased purchasing power. We have been able to rapidly improve the operating margins of the businesses we acquire by applying our extensive integration experience. We have also been able to improve revenue growth for certain acquired businesses through customer relationships, cross-merchandising and leveraging of our scale.

Highly Diversified Business Mix. Our broad product portfolio and extensive geographic reach minimize our concentration and exposure to any one school district, state, product or supplier. In fiscal 2007, our top 10 school district customers collectively accounted for less than 6% of revenues and our customers within any one state collectively accounted for less than 10% of revenues. For the same period, our top 100 products accounted for less than 5% of revenues and products from our top 10 suppliers generated less than 11% of revenues. We believe this diversification limits our exposure to state and local funding cycles and to product demand trends.

Strong Historical Financial Performance, Attractive Cash Flow Attributes and Multiple Growth Opportunities. We have historically demonstrated strong financial performance with high recurring revenues. Over 70% of our revenues are generated from the sale of consumable products, which typically need to be replaced at least once each school year. From fiscal 2003 through fiscal 2007, we grew our revenues through acquisitions and organic growth at a CAGR of 5.4%. The financial performance of our business remained relatively stable even during the state budget crisis from 2001 to 2003. We are continually focused on growing revenues within both our Specialty and Essentials segments, increasing our mix of proprietary products and improving our operations. Due to our low maintenance capital expenditure requirements, we convert a significant percentage of our operating income to cash flow available for debt service, acquisitions and/or share repurchases. We also enjoy highly predictable working capital cycles. In addition, we believe we have multiple revenue growth and margin improvement opportunities, including enhancing our sales efforts in under-penetrated states, expanding private-label business, increasing sourcing from overseas, optimizing direct marketing operations, increasing supply chain efficiency and pursuing strategic acquisitions. We also believe our movement towards category management, which will organize us around product and customer categories, will better synchronize our go-to-market strategies, product development efforts and supplier relationships. We believe this transformation will create new revenue streams and profitability.

Strong Management Team. We have a deep, experienced management team. Our executive management team and business unit leaders have an average of over 10 years of experience in the industry. Since David Vander Zanden, our Chief Executive Officer, joined us in 1998, our senior management team has been successful in growing our market share, diversifying our revenue streams into more profitable areas and improving the efficiency of our operations.

Growth Strategy

We use the following strategies to enhance our position as the leading provider of supplemental educational products and equipment:

Internal Growth. We plan to organically grow our revenues by:

- Expanding our faster growth, higher margin Specialty products business;
- Unifying our marketing efforts within an integrated category management structure;
- Developing new, high-potential proprietary products that are curriculum- and age-focused;
- Increasing our focus and selling resources in under-penetrated states and districts; and
- Utilizing direct marketing techniques and strategies to increase customer acquisition and retention.

Margin Improvement. As we continue to grow our revenues, we plan to increase margins by:

- Continuing to increase our mix of Specialty products, which, because of the large proportion of proprietary products, typically generate higher gross margins than our Essentials products;
- Continuing to expand our private label business through the introduction of new products;
- Expanding our direct sourcing of products from low-cost, overseas manufacturers;
- Increasing the sophistication and effectiveness of our direct marketing operations;
- Improving efficiencies of our supply chain activities;
- Continuing the consolidation of distribution centers and the elimination of redundant expenses of acquired businesses; and
- Utilizing our purchasing scale to negotiate favorable supplier terms and conditions.

Acquisitions. Our selective acquisition strategy and disciplined integration approach have allowed us to solidify our leading position within the supplemental education products and equipment industry and enhance our strong national marketing and distribution platform. This platform allows us to more readily integrate acquired brands, strengthen our Specialty brand portfolio and enter supplemental learning categories in which we do not currently compete, such as music and math. We believe that our size and national presence give us an advantage as a potential acquirer in a consolidating industry.

The majority of our acquisitions have historically occurred in the second half of our fiscal year, which follows our peak shipping season. This allows us to devote our resources to the effective integration of acquired businesses prior to the upcoming selling season. We plan to continue to focus on acquisition candidates that expand our presence in Specialty products.

Product Lines

We market two broad categories of supplemental education products and equipment: Specialty products and Essentials products. Our Specialty products enrich our Essentials product offering and create opportunities to cross merchandise our Specialty products, many of which are proprietary, to our Essentials customers.

Our Specialty offerings are focused in the following areas:

Agendas and Forms. We are the largest provider of academic agendas in the United States and Canada. Our agendas and related offerings are focused on developing better personal, social and organizational skills, as well as serving as an effective tool for students and parents to track and monitor their daily activities, assignments and achievements. Many of our agendas are customized at the school level to include each school's academic, athletic and extra-curricular activities. We are also able to customize our agendas for individual students. Our agendas are primarily marketed under the Premier brand name. We are also a leading publisher of school forms, including record books, grade books, teacher planners and other printed forms under the brand name Hammond & Stephens.

Science. Our leading science position, largely comprised of highly recognized proprietary or exclusive offerings, provides learning resources focused on promoting scientific education and inquiry, literacy and achievement to the preK-12 education market. Our products range from laboratory supplies, equipment and furniture to highly effective hands-on learning curriculums. Our science brands include FOSS (Full Option Science System), Frey Scientific, Delta Science Modules, Delta Education, CPO Science and Neo/SCI.

Early Childhood. Our early childhood offering provides educators of young children products that promote learning and development. Our full-line, highly proprietary offering provides educators everything from advanced literacy and dramatic play to manipulatives, basic arts and crafts and classroom furniture. We manufacture award-winning early childhood wood furniture in our Bird-in-Hand Woodworks facility. Our well-known early childhood brands include Childcraft and abc.

Reading & Literacy. Our reading and literacy programs, which are standards-based products and curriculum, are focused on providing educators and parents effective tools to encourage and enhance literacy, particularly in the K-6 grade levels. Educators Publishing Service (EPS) provides tailored reading and language arts instruction for students with special needs and proprietary instructional materials for educators. We also develop supplemental reading products including literature, workbooks and manipulatives to educators and parents under our leading imprints, including Instructional Fair, Frank Schaffer, Judy Instructo, Brighter Child, American Education Publishing, School Specialty Publishing and Spectrum.

Arts Education. Our leading market position is led by Sax Arts & Crafts, which offers products and programs focused on nurturing creativity and self-expression through hands-on learning. The product line ranges from original cross-curricular lesson plans and teaching resource materials to basic art materials, such as paints, brushes and papers. Our Arts Education group is supported by our team of art consultants who proactively serve the education process locally and nationally by conducting workshops and providing curriculum assistance to art educators.

Physical Education & Health. We offer a full range of programs, solutions, resources and equipment designed to help improve student and staff wellness. Our products, which are primarily offered under our Sportime brand, range from traditional sports equipment to unique and innovative products designed to encourage participation by all. We also offer proven, research-based solutions such as SPARK and WAY, which are curriculum- and product-based programs focused on promoting healthy, active lifestyles and target childhood obesity.

Special Learning Needs. We offer a full range of solutions for children with special learning needs through our Abilitations brand. Our proprietary solutions and products are designed to help educate children with learning, behavioral, sensory or physical differences and are focused on helping educators and therapists make a real difference in a child's life.

Audio Technology. We are the leading developer of educator-inspired quality audio technology products, including state of the art multi-media, audio visual and presentation equipment for the preK-12 education market. These products are marketed under the brand name Califone.

Teacher Focused Classroom Supplies. We provide a full-line offering of general supplemental educational products to teachers and curriculum specialists directly through our ClassroomDirect catalog and website.

Our Essentials offerings are focused in the following areas:

School & Classroom Essentials. We are the largest marketer of school and classroom supplies. Through our School Specialty Education Essentials catalog, which offers many of our proprietary School Smart products, we provide an extensive offering of basic supplies that are consumed in the school and classrooms. This offering includes pencils, glue, paper, crayons, scissors, stickers and classroom decorations. Our School Smart brand was launched in 2005 and includes over 2,400 products. We plan to add an additional 700 products under the School Smart brand by the end of fiscal 2008. These products are primarily sourced directly from low-cost, overseas manufacturers, which we believe will allow us to enhance our product offering and improve profitability. Our School Smart brand is also represented in many of our Specialty offerings.

School and Classroom Furniture & Equipment. We believe we are the largest source for school furniture in the United States, offering a full range of school-specific furniture and equipment. Our offering allows us to equip an entire facility, refurbish a specific location within a school, such as a cafeteria, gymnasium or media center, or to replace individual items such as student desks and chairs. Our Classroom Select proprietary furniture offering is a highly functional and outstanding quality classroom furniture line. We also have been granted exclusive franchises for certain furniture lines in specific territories. We also offer our proprietary service, Projects by Design, which provides turn-key needs assessment, budget analysis and project management for new construction projects.

Our product development managers apply their extensive education industry experience to design curriculum- and age-specific products to enhance the learning experience. New product ideas are reviewed with customer focus groups and advisory panels comprised of educators to ensure new offerings will be well received and meet an educational need.

Our merchandising managers, many of whom were educators, continually review and update the product lines for each business. They determine whether current offerings are attractive to educators and anticipate future demand. The merchandising managers also travel to product fairs and conventions seeking out new product lines. This annual review process results in a constant reshaping and expansion of the educational materials and products we offer.

For further information regarding our Essentials and Specialty segments, see our "Segment Information" in the notes under Item 8, Financial Statements and Supplementary Data.

Intellectual Property

We maintain a number of trademarks, trade names, service marks and other intangible property rights that we believe have significant value and are important to our business. Our trademarks, trade names and service marks include the following: School Specialty, Education Essentials, School Smart, Projects by Design, School Specialty Publishing, American Education Publishing, Brighter Child, Frank Schaffer, Instructional Fair, Ideal, Judy Instructo, abc School Supply, Integrations, Abilitations, Brodhead Garrett, Califone, Childcraft, ClassroomDirect, Frey Scientific, Hammond & Stephens, Premier Agendas, Sax Arts & Crafts, Sax Family & Consumer Sciences, Spectrum, Sportime, Sunburst Visual Media, Teacher's Media Company, Delta Education, NeoSCI, CPO Science and EPS. We also sell products under brands we license, such as FOSS and Franklin Covey Seven Habits.

Sales and Marketing

We developed our innovative two-tiered sales and marketing strategy that includes the industry's largest sales force of approximately 600 professionals, more than 47 million annual catalog mailings and proprietary e-commerce websites. We believe our sales and marketing model is different from that of our competitors. Our strategy is to use two separate sales and marketing approaches ("bottom up" and "top down") to reach all the prospective purchasers in the education system.

"Bottom Up." We use the "bottom up" approach to target the classroom level decision-makers through our Specialty sales force of approximately 250 professionals, catalog mailings featuring our proprietary products and our Specialty brands and brand-specific websites. These catalogs allow teachers to choose products that are specific to their curriculum and classroom needs and may not have been purchased by school administration.

Generally, for each Specialty brand, a major catalog containing its full product offering is distributed near the end of the calendar year and during the course of the year we mail additional supplemental catalogs. Schools, teachers and curriculum specialists can also access websites for product information and purchasing. Further, we believe that by cross-marketing our Specialty brands to Essentials customers, we can achieve substantial incremental sales.

"*Top Down.*" Our "top down" marketing approach targets administrators through our Essentials sales force of approximately 330 professionals, the Education Essentials catalog and *School Specialty Online*, an e-commerce solution that enables us to generate higher internet sales than any of our education competitors.

Schools typically purchase supplemental education products based on established relationships with relatively few vendors. We seek to establish and maintain these critical relationships by assigning accounts within a specific geographic territory to a local area sales representative who is supported by a centrally located customer service team. The sales representatives frequently call on existing customers to ascertain and fulfill their supplemental educational resource needs. The customer service representatives maintain contact with these customers throughout the order cycle and assist in order processing.

We have a centralized and national sales, marketing, distribution and customer service structure. We believe that this structure significantly improves our effectiveness through better sales management, resulting in higher regional penetration and significant cost savings through the reduction of distribution centers.

Projects by Design. Projects by Design is a service we provide our customers free of charge to aid in the design, building and renovation of schools. Our professional designers prepare a detailed analysis of the building and individual classrooms to optimize the layout of student and teacher desks, student lockers and other classroom equipment and fixtures. Customers have the ability to view prospective classrooms through our innovative software in order to efficiently manage the project. We believe this service makes us an attractive alternative to other furniture and school fixture suppliers.

Internet Operations. Our internet channel activities through *School Specialty Online* are focused on enhancing customer loyalty, driving down cost by receiving more orders electronically and creating a full customer self-service portal. Our brands are available through *School Specialty Online* which allows our customers a single access point for purchasing. Our systems provide functionality to meet the specific needs of school districts and school customers who generally purchase Essentials products as well as the needs of individual teachers and curriculum specialists who tend to buy Specialty products. *School Specialty Online* allows our customers to manage funding through the use of purchase order spending limitation, approval workflows, order management and reporting. It also includes other features that are more helpful to teachers, curriculum specialists and others with more sophisticated needs, including product search, custom catalogs and email notification, allowing users to have access to the full line of School Specialty products. In addition, we have maintained an electronic ordering system for over 15 years and offer e-commerce solutions directed exclusively at the education market. Each of our Specialty brands has a dedicated website for its own products.

Pricing. Pricing for our Essentials and Specialty product offerings varies by product and market channel. We generally offer a negotiated discount from catalog prices for products from our Education Essentials catalog and respond to quote and bid requests. The pricing structure of proprietary Specialty products offered through direct marketing is generally less subject to negotiation.

Procurement

Essentials Products. Each year, we add new items to our Education Essentials catalog. We purchase and stock these items before the catalog is released so that we can immediately satisfy customer demand. Slow-moving products are removed from the catalog and from stock to make room for better performing inventory. We typically negotiate annual supply contracts with our vendors. Contracts with larger vendors usually provide negotiated pricing and/or extended terms and often include volume discounts and rebate programs. We have exclusive distribution rights on several furniture and equipment lines.

Specialty Products. Our Specialty segment develops many proprietary products and generally outsources the manufacturing of these items. We purchase non-proprietary Specialty products in a similar manner to that of our purchasing process for Essentials products.

Global Sourcing. We have increased our gross profit while improving product quality by directly sourcing product through overseas channels. Increasingly, we are looking to foreign vendors to manufacture proprietary products and develop exclusive products on our behalf.

Private Label Product. We launched the School Smart brand in 2005 to build brand loyalty and leverage our global sourcing efforts. The School Smart brand strategy involves taking third party Essentials products sourced overseas, enhancing them and selling them under the School Smart brand. The program included over 2,400 products in fiscal 2007 and we plan to add an additional 700 products under the School Smart brand by the end of fiscal 2008. This will represent a significant portion of the Essentials segment revenue which we believe will drive margin improvement and increased profitability in this segment.

We maintain close and stable relationships with our vendors to facilitate a streamlined procurement process. At the same time, we continually review alternative supply sources in an effort to improve quality and customer satisfaction and reduce product cost. Transactions with our larger vendors are processed through an electronic procurement process. This electronic process reduces costs and improves accuracy and efficiency in our procurement and fulfillment process. When more than one of our brands buys from the same vendor, we typically negotiate one contract to fully leverage our combined purchasing power.

Logistics

We believe we have the largest and most sophisticated distribution network among our direct competitors with eight fully-automated and seamlessly-integrated distribution centers, totaling over two million square feet of operating space. We believe this network represents a significant competitive advantage for us, allowing us to reach any school in a fast and efficient fashion. We recently enhanced our distribution model, allowing most of our customers to receive their orders one day after shipment. We utilize a third-party logistics provider in China to consolidate inbound shipments, lowering our transportation and inventory storage costs.

In order to maintain the proprietary nature of some of our products, we operate four manufacturing facilities. Our Lancaster, Pennsylvania plant manufactures wood furniture for our early childhood offerings. The Bellingham, Washington; Fremont, Nebraska; and Langley, British Columbia facilities produce products for our agenda and forms offerings. Products that we manufacture accounted for less than 10% of sales during fiscal 2007, 2006 and 2005.

Information Systems

We believe that through the utilization of technology for process improvement in areas such as procurement, inventory management, customer order management, order fulfillment, and information management, we are able to offer customers more convenient and cost-effective ways to order products, improve the order fulfillment process to increase on-time and complete performance and effectively focus our sales and marketing strategies.

Our Essentials segment and certain Specialty businesses use a specialized distribution software package called System for Distributors. We have made numerous enhancements to the system that allow us to track multiple marketing promotions and utilize significant list management capabilities. Most of the remaining Specialty brands use a mail-order and catalog system from Ecometry Corporation that allows us to manage extensive customer lists and track multiple marketing offers and promotions. Our distribution centers utilize interfaced warehouse management software to manage orders from the respective business systems.

In fiscal 2006, we began implementing a common ERP platform across all of our businesses over a three year period. This platform will replace most of our existing systems and primarily includes software from Oracle's E-Business suite. By utilizing common business systems across the corporation, we expect to achieve improved business processes, reduce cycle time and enhance integration between the business units. We believe the technologies of the new systems will readily support continued growth and integration of our existing and newly-

acquired businesses. In fiscal 2007, three of our business units were converted to the new ERP platform. It is currently estimated that 80% of our business units will be converted by the end of fiscal 2008.

Competition

The supplemental educational products and equipment market is highly fragmented with approximately 3,300 companies providing products and equipment, many of which are family- or employee-owned, regional companies that generate annual revenues under $10 million. We also compete, to a much lesser extent, with alternate channel competitors such as office product contract stationers, office supply superstores, purchasing cooperatives and internet-based businesses. Their primary advantages over us include size, location, greater financial resources and purchasing power. Their primary disadvantage is that their product mix typically covers a very small portion of the school's needs (measured by volume). We believe we compete favorably with these companies on the basis of service, product offering and customer reach.

Employees

As of June 1, 2007, we had approximately 2,650 full-time employees. To meet the seasonal demands of our customers, we employ many seasonal employees during the late spring and summer months. Historically, we have been able to meet our requirements for seasonal employment. None of our employees are represented by a labor union and we consider our relations with our employees to be very good.

Backlog

We have no material backlog at April 28, 2007. Our customers typically purchase products on an as-needed basis.

Item 1A. Risk Factors

Forward-Looking Statements

Statements in this Annual Report which are not historical are "forward-looking" statements within the meaning of the Private Securities Litigation Reform Act of 1995. The forward-looking statements include: (1) 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 internal growth plans, projected revenues, margin improvement, future acquisitions, capital expenditures and adequacy of capital resources; (2) statements included or incorporated by reference in our future filings with the Securities and Exchange Commission; 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 projected revenues, costs, earnings and earnings per share. Forward-looking statements also include statements regarding the intent, belief or current expectation of School Specialty or its officers. Forward-looking statements include statements preceded by, followed by or that include forward-looking terminology such as "may," "should," "believes," "expects," "anticipates," "estimates," "continues" or similar expressions.

All forward-looking statements included in this Annual Report are based on information available to us as of the date hereof. We do not undertake to update any forward-looking statements that may be made by or on behalf of us, in this Annual Report or otherwise. 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 risk factors set forth below.

Our business depends upon the growth of the student population and school expenditures and can be adversely impacted by fixed school budgets.

Our growth strategy and profitability depend in part on growth in the student population and expenditures per student in preK-12 schools. The level of student enrollment is largely a function of demographics, while expenditures per student are affected by federal, state and local government budgets. For example, from 2002 to 2004, the industry was negatively affected by a generally weakened economic environment which placed pressure on some state and local budgets, the primary sources of school funding. This was evidenced, among other things, by

the 5.7% decline in state tax revenue in 2002. In school districts in states that primarily rely on local tax proceeds for funding, significant reductions in those proceeds for any reason can restrict district expenditures and impact our results of operations. 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. Because school budgets are fixed on a yearly basis, any shift by schools in expenditures during a given fiscal year to areas that are not part of our business could also materially affect our business. For example, as was the case in fiscal 2006, our results were adversely affected and our organic revenues throughout our business declined in part because we believe schools unexpectedly increased their expenditures on fuel and health-related costs, and consequently decreased their spending on supplemental educational products and equipment.

If we are unable to successfully identify and integrate acquisitions, our results of operations could be adversely affected.

In recent years, a significant amount of our growth has come from acquisitions. Future growth in our revenues and earnings will be impacted by our ability to continue to acquire and successfully integrate businesses. We cannot guarantee that we will be able to identify and acquire businesses on reasonable terms or at all. If we are unable to do so, our future growth may be limited, or our revenues could decline. In addition, the integration of acquired businesses with our existing business operations presents many challenges and can demand significant attention from our key managers. The demands placed upon the time of our management team may adversely affect the operation of our existing business. Managing and integrating acquired businesses may result in substantial costs, delays, or other operating or financial problems that could materially and adversely affect our financial condition and results of operations.

Key risks involve:

- failure to execute as well or as quickly as anticipated on our integration plans, including the integration of acquired employees, operations, technologies and products with our existing business and products;
- retention of business relationships with suppliers and customers of the acquired business;
- loss of key personnel of the acquired business;
- the diversion of our management during the integration process; and
- resistance to cultural changes in the acquired organization.

Increased costs associated with the distribution of our products would adversely affect our results of operations.

Higher than expected costs and other difficulties associated with the distribution of our products could affect our results of operations. To the extent we incur difficulties or higher than expected costs related to updating our distribution centers, such costs may have a material adverse effect on our business, financial condition and results of operations. Any disruption in our ability to service our customers may also impact our revenues or profits. Moreover, as we update our distribution model or change the product mix of our distribution centers, we may encounter unforeseen costs or difficulties that may have an adverse impact on our financial performance.

Our business is highly seasonal.

Because most of our customers want their school supplies delivered before or shortly after the commencement of the school year, we record most of our revenues from June to October. During this period, we receive, ship and bill the majority of orders for our products so that schools and teachers receive their merchandise by the start of each school year. To the extent we do not sell our products to schools during the peak shipping season, many of such sales opportunities will be lost and will not be available in subsequent quarters. Our inventory levels increase in April through June in anticipation of the peak shipping season. We usually earn more than 100% of our annual net income in the first two quarters of our fiscal year and operate at a net loss in our third and fourth fiscal quarters. This seasonality causes our operating results to vary considerably from quarter to quarter and significantly impacts our liquidity position.

If our key suppliers or service providers were unable to provide the products and services we require, our business could be adversely affected.

We depend upon a limited number of suppliers for some of our products, especially furniture and proprietary products. 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 October), our ability to deliver our products on a timely and profitable basis could be impaired and thus could have a material adverse effect on our business, financial condition and results of operations. Many of our agreements with our suppliers are terminable at any time or on short notice, with or without cause, and, while we consider our relationships with our suppliers to be good, we cannot assure that any or all of our relationships will not be terminated or that such relationships will continue as presently in effect.

Our business is highly competitive.

The market for supplemental educational products and equipment is highly competitive and fragmented. We estimate that over 3,300 companies market supplemental educational products and equipment to schools with preK-12 as a primary focus of their business. We also face competition from alternate channel marketers, including office supply superstores, office product contract stationers, and purchasing cooperatives that have not traditionally focused on marketing supplemental educational products and equipment. Our competitors impact the prices we are able to charge and we expect to continue to face pricing pressure from our competitors in the future. These competitors are likely to continue to expand their product lines and interest in supplemental educational products and equipment. Some of these competitors have greater financial resources and buying power than we do. We believe that the supplemental educational products and equipment market will consolidate over the next several years, which could increase competition in both our markets and our search for attractive acquisition candidates. We also face increased competition and pricing pressure as a result of the accessibility of the internet.

If any of our key personnel discontinue their role with us, our business could be adversely affected.

Our business depends to a large extent on the abilities and continued efforts of current executive officers and senior management. 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 role, or if we are unable to attract and retain other qualified employees, including a new chief financial officer and other key personnel, our business could be adversely affected. Although we have employment contracts with many of our executive officers, we generally do not have employment agreements with other members of our management. Other than the life insurance we have in place for our Chief Executive Officer, we do not have and do not intend to obtain key man life insurance covering any of our executive officers or other members of our management.

A failure to successfully implement our business strategy could materially and adversely affect our operations and growth opportunities.

Our ability to achieve our business and financial objectives is subject to a variety of factors, many of which are beyond our control, and we may not be successful in implementing our strategy. In addition, the implementation of our strategy may not lead to improved operating results. We may decide to alter or discontinue aspects of our business strategy and may adopt alternative or additional strategies due to business or competitive factors or factors not currently expected, such as unforeseen costs and expenses or events beyond our control. Any failure to successfully implement our business strategy could materially and adversely affect our results of operations and growth opportunities.

We face risks associated with our increasing emphasis on imported goods and private label products.

Increases in the cost or a disruption in the flow of our imported goods may adversely impact our revenues and profits and have an adverse impact on our cash flows. Our business strategy includes an increased emphasis on offering private label products and sourcing quality merchandise directly from low cost suppliers. As a result, we expect to rely more heavily on imported goods from China and other countries and we expect the sale of imported goods to continue to increase as a percentage of our total revenues. To the extent we rely more heavily on the sale of private label products, our potential exposure to product liability claims may increase. In addition, our reputation

may become more closely tied to our private label products and may suffer to the extent our customers are not satisfied with the quality of such products. Private label products will also increase our risks associated with returns and inventory obsolescence. Our reliance on imported merchandise subjects us to a number of risks, including: (a) increased difficulties in ensuring quality control; (b) disruptions in the flow of imported goods due to factors such as raw material shortages, work stoppages, strikes, and political unrest in foreign countries; (c) problems with oceanic shipping, including shipping container shortages; (d) economic crises and international disputes; (e) increases in the cost of purchasing or shipping foreign merchandise resulting from a failure of the United States to maintain normal trade relations with China and the other countries we do business in; (f) import duties, import quotas, and other trade sanctions; and (g) increases in shipping rates imposed by the trans-Pacific shipping cartel. If imported merchandise becomes more expensive or unavailable, we may not be able to transition to alternative sources in time to meet our demands. A disruption in the flow of our imported merchandise or an increase in the cost of those goods due to these or other factors would significantly decrease our revenues and profits and have an adverse impact on our cash flows.

Currency exchange rates may impact our financial condition and results of operations and may affect the comparability of our results between financial periods.

To the extent we source merchandise from overseas manufacturers and sell products internationally, exchange rate fluctuations could have an adverse effect on our results of operations and ability to service our U.S. dollar-denominated debt. The majority of our debt will be in U.S. dollars while a portion of our revenue is derived from imported products and international sales. Therefore, fluctuations in the exchange rate of foreign currencies versus the U.S. dollar could impact our costs and revenues. In addition, for the purposes of financial reporting, any change in the value of the foreign currencies against the U.S. dollar during a given financial reporting period would result in a foreign currency loss or gain. Consequently, our reported earnings could fluctuate as a result of foreign exchange translation gains or losses and may not be comparable from period to period.

It is difficult to forecast our revenue stream given the seasonal purchasing patterns of our customers.

The seasonal purchasing patterns of our customers, and the fact that our customers typically purchase products on an as-needed basis, make it difficult for us to accurately forecast our revenue stream, which may vary significantly from period to period. Financial analysts and others that may seek to project our future performance face similar difficulties. The difficulty in accurately forecasting our revenue increases the likelihood that our financial results will differ materially from any projected financial results. Any shortfall in our financial results from our or third party projected results could cause a decline in the trading price of our common stock and our convertible subordinated notes.

We have a material amount of goodwill, other intangible assets and capitalized product development costs which might be written-down.

At April 28, 2007, goodwill and intangible assets represented approximately 64.6% of our total assets. Goodwill is the amount by which the costs of an acquisition exceed the fair value of the net assets we acquire. In addition, we are required to evaluate whether our goodwill and other intangible assets have been impaired. Reductions in our net income caused by the write-down of our existing goodwill or intangible assets or any goodwill or intangible assets acquired in any future acquisition we may make could materially adversely affect our results of operations. For example, during fiscal 2007 and fiscal 2006 we recorded pre-tax impairment charges of $23.5 million and $25.6 million, respectively, related to goodwill and other intangibles assets of our discontinued School Specialty Media ("SSM") business unit. In addition, we have capitalized product development costs of $18.0 million and $22.8 million at April 28, 2007 and April 29, 2006, respectively, related to both internally developed and acquired proprietary products, which are amortized to expense over the lesser of five years or the product's life cycle. Any changes in the estimated sales volume or life cycle of the underlying products could cause the currently capitalized costs or costs capitalized in the future to be impaired. For example, during fiscal 2007 and 2006 we recorded pre-tax impairments charges of $3.6 million and $1.0 million, respectively, related to product development costs of SSM.

Our operations are dependent on our information systems.

We have integrated the operations of most of our divisions and subsidiaries, which operate on a host system located at our Greenville, Wisconsin headquarters. In addition, there are several divisions running legacy systems hosted at their locations. All systems rely on continuous telecommunication connections to the main computers. If any of these connections becomes disrupted, or unavailable, for an extended period of time, the disruption could materially and adversely affect our business, operations and financial performance. We also continue to introduce new information systems to achieve a common processing infrastructure for all of our businesses, particularly the new ERP platform described elsewhere in this report, which will displace existing legacy systems. As we implement the new systems to the businesses, there is the possibility that it can be disruptive should the new systems not perform as expected.

Even though we have taken precautions to protect ourselves from unexpected events that could interrupt new, existing and acquired business operations and systems, we cannot be sure that fire, flood or other natural disasters would not disable our systems and/or prevent them from communicating between business segments. The occurrence of any such event could have a material adverse effect on our business, results of operations and financial condition. We also confront challenges in integrating the information systems of any companies we acquire. The costs associated with performing such integrations or any disruptions resulting from a failure to successfully make any such integration could materially impact our business.

We rely on our intellectual property in the design and marketing of our products.

We rely on certain trademarks, trade names and service names, along with licenses to use and exploit certain trademarks, trade names and service names (collectively, the "marks") in the design and marketing of some of our products. We could lose our ability to use our brands if our marks were found to be generic or non-descriptive. While no single mark is material to our business, the termination of a number of these marks could have an adverse effect on our business. We also rely on certain copyrights, patents and licenses other than those described above, the termination of which could have an adverse effect on our business.

The agreements governing our debt contain various covenants that limit our discretion in the operation of our business, could prohibit us from engaging in transactions we believe to be beneficial and could lead to the acceleration of our debt.

Our existing and future debt agreements impose and will impose operating and financial restrictions on our activities. These restrictions require us to comply with or maintain certain financial tests and ratios and restrict our ability and our subsidiaries' ability to:

- incur additional debt;
- create liens;
- make acquisitions;
- redeem and/or prepay certain debt;
- sell or dispose of a minority equity interest in any subsidiary or other assets;
- make capital expenditures;
- make certain investments;
- enter new lines of business;
- engage in consolidations, mergers and acquisitions;
- repurchase or redeem capital stock;
- guarantee obligations;
- engage in certain transactions with affiliates; and
- pay dividends and make other distributions.

Our amended and restated senior credit facility also requires us to comply with certain financial ratios, including a total leverage ratio, a senior leverage ratio and a minimum fixed charge coverage ratio. These restrictions on our ability to operate our business could seriously harm our business by, among other things, limiting our ability to take advantage of financing, mergers and acquisitions and other corporate opportunities.

Item 1B. Unresolved Staff Comments

None.

Item 2. Properties

Our corporate headquarters is located in a leased facility. The lease on this facility expires in April 2021. The facility is located at W6316 Design Drive, Greenville, Wisconsin, a combined office and warehouse facility of approximately 332,000 square feet, which also services both of our Specialty and Essentials segments. In addition, we lease or own the following principal facilities as of June 15, 2007:

Locations	Approximate Square Footage	Owned/ Leased	Lease Expiration
Bellingham, Washington (1)	48,000	Leased	March 31, 2011
Bellingham, Washington (1)	61,000	Leased	July 31, 2009
Bellingham, Washington (1)	22,000	Leased	October 30, 2007
Bellingham, Washington (1) (3)	14,000	Leased	—
Birmingham, Alabama (1)	25,000	Leased	October 31, 2012
Cambridge, Massachusetts (1)	18,000	Leased	July 31, 2008
Columbus, Ohio (1)	18,000	Leased	July 31, 2011
Fremont, Nebraska (1)	95,000	Leased	June 30, 2011
Fresno, California (2)	163,000	Leased	October 31, 2009
Hawthorne, New York (4)	9,000	Leased	June 30, 2008
Lancaster, Pennsylvania (2)	73,000	Leased	December 31, 2007
Langley, British Columbia (1)	9,000	Leased	August 31, 2008
Langley, British Columbia (1)	10,000	Leased	August 31, 2008
Lyons, New York (2)	195,000	Owned	—
Mansfield, Ohio (2)	315,000	Leased	November 30, 2020
Mount Joy, Pennsylvania (2)	400,000	Leased	December 31, 2024
Nashua, New Hampshire (1)	349,000	Leased	December 31, 2018
New Berlin, Wisconsin (1)	16,000	Leased	September 30, 2011
Norcross, Georgia (2)	41,000	Leased	December 31, 2010
Peabody, Massachusetts (1)	18,000	Leased	March 14, 2011
Plainview, New York (4)	27,000	Leased	June 30, 2010
Salina, Kansas (2)	115,000	Owned	—
Salina, Kansas (2)	45,000	Leased	February 29, 2008
San Fernando, California (1)	37,000	Leased	July 31, 2012
Walker, Michigan (1)	198,000	Leased	July 31, 2011

(1) Location primarily services the Specialty segment.
(2) Location services both business segments.
(3) Facility lease at this location is renewed monthly.
(4) Location services our discontinued School Specialty Media business unit.

The 73,000 square foot Lancaster, Pennsylvania facility is used for manufacturing wood products and the Fremont, Nebraska; Langley, British Columbia; and Bellingham, Washington facilities are used for production of agendas and school forms. The other facilities are distribution centers and/or office space. 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. We believe 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 28, 2007 to a vote of our security holders.

EXECUTIVE OFFICERS OF THE REGISTRANT

As of June 1, 2007, the following persons served as executive officers of School Specialty:

Name and Age of Officer	
David J. Vander Zanden Age 52	Mr. Vander Zanden became Chief Executive Officer of School Specialty in September 2002, after serving as Interim Chief Executive Officer since March 2002. Mr. Vander Zanden served as Chief Operating Officer from March 1998 to March 2002, as well as President from March 1998 to March 2007. 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 June 1998.
Thomas M. Slagle Age 45	Mr. Slagle joined School Specialty as President and Chief Operating Officer in March 2007. Prior to joining School Specialty, Mr. Slagle served as Group President, Supply Chain Services - Medical for Cardinal Health, Inc., where he held profit and loss responsibility for five business segments with over $7 billion of revenue. Mr. Slagle's 11 years with Cardinal Health, as well as prior executive management positions with Johnson & Johnson Ortho Diagnostics Division and Baxter Healthcare, included advancing through positions of increasing responsibility in operations, sales, supply chain and distribution management.
David G. Gomach Age 48	Mr. Gomach, a Certified Public Accountant, joined School Specialty in August 2006 as Executive Vice President Finance and was named Chief Financial Officer and Treasurer effective September 15, 2006. He spent most of his career with the Chicago Mercantile Exchange, joining that firm as a Manager of Budgets in 1987 and advancing through several promotions to become the CFO.

Gregory D. Cessna Age 50	Mr. Cessna joined School Specialty in July 2005 as the President of Education Essentials and corporate Executive Vice President. From 1999 until joining School Specialty, Mr. Cessna served as the Executive Vice President of PolyVision Corporation, A Steelcase Company. PolyVision Corporation was a manufacturer of Visual Communication products for the education and office products market. Mr. Cessna was President of ABB Process Analytics, a manufacturer of on-line analytical instruments, from 1990 until 1999.
Steven Korte Age 52	Mr. Korte joined School Specialty in September 2005 as a result of the Delta Education LLC acquisition and was appointed President, Educational Publishing Group and corporate Executive Vice President shortly thereafter. From January 2004 to August 2005, Mr. Korte held the position of President and COO of Delta Education LLC. For the prior ten years 1994-2003, Mr. Korte was the President of Rigby Education/Harcourt Supplemental Publishers, a division of Reed Elsevier plc.

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. On May 23, 2007, Mr. Gomach announced his resignation as Chief Financial Officer and Treasurer of the Company effective July 2, 2007. 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, Related Shareholder Matters and Issuer Purchases of Equity Securities

Market Information

Our common stock is traded under the symbol "SCHS" on The Nasdaq Global Select Market. The table below sets forth the reported high and low closing sale prices for shares of the common stock, as reported by the National Association of Securities Dealers, Inc. during the indicated quarters.

Fiscal 2007 quarter ended	High	Low
July 29, 2006	$ 36.26	$ 30.36
October 28, 2006	39.28	32.00
January 27, 2007	39.50	36.59
April 28, 2007	40.24	32.89

Fiscal 2006 quarter ended	High	Low
July 30, 2005	$ 47.00	$ 37.22
October 29, 2005	48.89	33.38
January 28, 2006	37.43	32.83
April 29, 2006	38.04	32.42

Holders

As of June 1, 2007, there were 1,970 record holders of our 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 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.

Share Repurchase Program

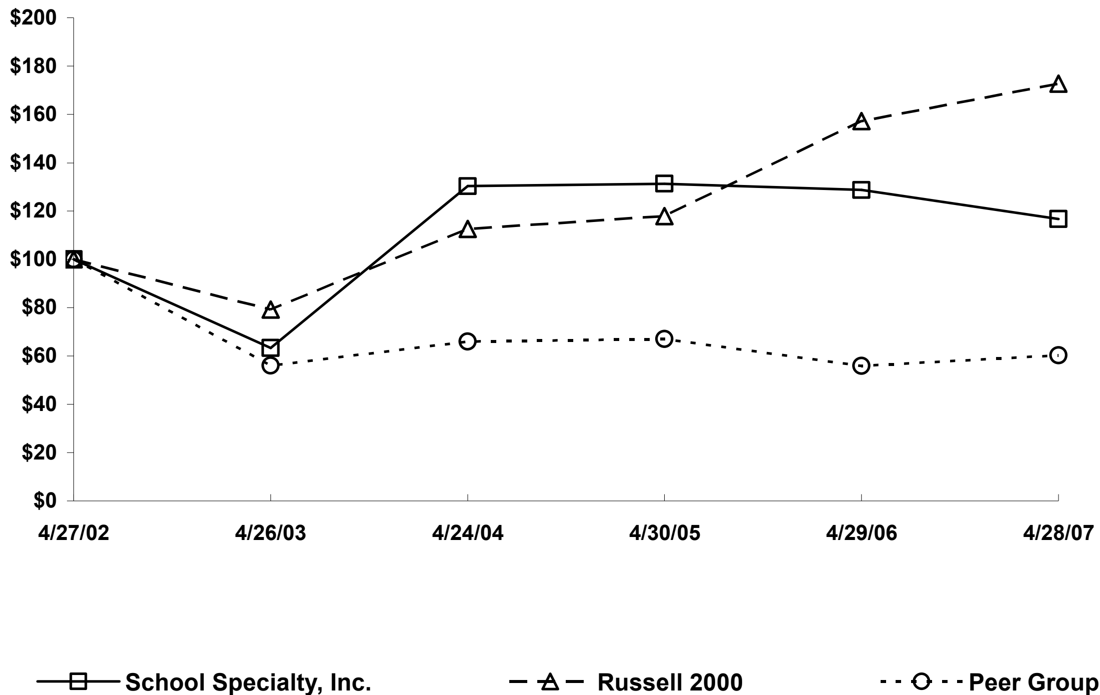
On June 15, 2006 the Company's Board of Directors approved a share repurchase program, which allowed the Company to purchase up to $50.0 million of the Company's outstanding common stock. In November 2006, the Company's Board of Directors authorized an additional $26.5 million repurchase, bringing the total authorization to $76.5 million. During fiscal 2007, the Company repurchased a total of 2,126,121 shares, substantially completing the available purchases under authorizations at April 28, 2007. No repurchases were made in the fourth quarter of fiscal 2007. Common stock acquired through the share repurchase program is available for general corporate purposes and is reflected as Treasury Stock in the accompanying consolidated balance sheets.

On June 5, 2007 the Company announced that its Board of Directors approved a new share repurchase program, which allows the company to purchase up to $45.0 million of our outstanding common stock. Purchases under the share repurchase program may be made from time to time in the open market or privately negotiated transactions. Common stock acquired through the share repurchase program will be available for general corporate purposes.

PERFORMANCE GRAPH

The following graph compares the total shareholder return on our Common Stock since April 27, 2002 with that of the Russell 2000 Stock Market Index and a peer group index constructed by us. The companies included in our peer group index are: Renaissance Learning, Inc. (RLRN), Scholastic Corporation (SCHL), and The Aristotle Corporation (ARTL).

The total return calculations set forth below assume $100 invested on April 27, 2002, with reinvestment of any dividends into additional shares of the same class of securities at the frequency with which dividends were paid on such securities through April 28, 2007. The stock price performance shown in the graph below should not be considered indicative of potential future stock price performance.



	4/27/02	4/26/03	4/24/04	4/30/05	4/29/06	4/28/07
School Specialty, Inc.	**100.00**	**63.41**	**130.29**	**131.32**	**128.70**	**116.70**
Russell 2000	**100.00**	**79.24**	**112.53**	**117.83**	**157.27**	**172.73**
Peer Group	**100.00**	**56.04**	**65.94**	**67.11**	**55.96**	**60.36**

Item 6. Selected Financial Data

SELECTED FINANCIAL DATA
(In thousands, except per share data)(1)

	Fiscal Year				
	2007	**2006**	**2005**	**2004**	**2003**
Statement of Operations Data:	(52 weeks)	(52 weeks)	(53 weeks)	(52 weeks)	(52 weeks)
Revenues	$1,043,152	$ 977,302	$ 970,435	$882,049	$844,402
Cost of revenues	597,515	568,623	573,488	525,099	504,921
Gross profit	445,637	408,679	396,947	356,950	339,481
Selling, general and administrative expenses	351,839	349,302	309,582	272,133	256,708
Merger-related expenses	-	5,202	-	-	-
Operating income	93,798	54,175	87,365	84,817	82,773
Interest expense (net)	22,086	19,186	12,882	18,284	18,001
Other expense	6,019	4,160	2,115	1,136	1,951
Redemption costs and fees for convertible debt redemption	-	-	1,839	-	-
Income before provision for income taxes	65,693	30,829	70,529	65,397	62,821
Provision for income taxes	26,468	12,581	27,402	25,408	25,209
Earnings from continuing operations	39,225	18,248	43,127	39,989	37,612
Earnings (loss) from operations of discontinued School Specialty Media business unit, net of income taxes	(21,179)	(18,187)	(126)	808	1,978
Net income	$ 18,046	$ 61	$ 43,001	$ 40,797	$ 39,590
Weighted average shares outstanding:					
Basic	21,873	22,898	21,612	18,828	18,324
Diluted	22,545	23,739	23,910	24,125	23,378
Basic earnings per share of common stock:					
Earnings from continuing operations	$ 1.79	$ 0.80	$ 2.00	$ 2.12	$ 2.05
Earnings (loss) from discontinued operations	(0.96)	(0.80)	(0.01)	0.05	0.11
Total	$ 0.83	$ 0.00	$ 1.99	$ 2.17	$ 2.16
Diluted earnings per share of common stock:					
Earnings from continuing operations	$ 1.74	$ 0.77	$ 1.88	$ 1.90	$ 1.86
Earnings (loss) from discontinued operations	(0.94)	(0.77)	(0.00)	0.04	0.08
Total	$ 0.80	$ 0.00	$ 1.88	$ 1.94	$ 1.94

Balance Sheet Data:	**April 28, 2007**	**April 29, 2006**	**April 30, 2005**	**April 24, 2004**	**April 26, 2003**
Working capital (2)	$ 34,103	$ 34,767	$ 114,513	$132,001	$ 95,946
Total assets	1,110,879	1,130,375	884,605	832,607	736,335
Long-term debt	293,139	283,629	149,680	314,104	292,844
Total debt	426,729	417,207	195,671	314,628	293,356
Shareholders' equity	512,545	553,733	544,545	378,975	321,453

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(1) Our business has grown since 2003 through acquisitions and internal growth. For detailed information on acquisitions during fiscal years 2006 and 2005, see the "Business Combinations" note in our notes to consolidated financial statements. During fiscal 2003, we made three acquisitions for an aggregate purchase price of approximately $51.4 million.

(2) At April 28, 2007 and April 29, 2006, working capital includes the convertible subordinated notes balance of $133.0 million as a current liability. During fiscal 2006, the notes became convertible as the closing price of the Company's stock exceeded $48.00 for the specified amount of time. The notes may be converted at any time into cash for the accreted principal amount and cash or our common stock for the balance, if any, of the obligation. Working capital at April 30, 2005 includes the balance on the revolving credit facility of $45.5 million as a current liability. Working capital for other periods reflected above excludes the balance on the revolving credit facility as it was considered long-term in nature.

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operation ("MD&A")

You should read the following discussion and analysis in conjunction with our consolidated financial statements and related notes, included elsewhere in this Annual Report.

Background

We are a leading education company serving the preK-12 education market by providing products, services and ideas that enhance student achievement and development to educators and schools across the United States and Canada. We offer more than 100,000 items through an innovative two-pronged marketing approach that targets both school administrators and individual teachers.

We have grown in recent years through acquisitions and internal growth. For information on our recent acquisitions see the "Business Combinations" note in the notes to our consolidated financial statements. Our revenues for fiscal 2007 were $1.043 billion, which represented a compound annual revenue growth, including acquisitions, of 5.4% compared to our fiscal 2003 results.

Our gross margin has improved from 40.2% in fiscal 2003 to 42.7% in fiscal 2007. This improvement was due to an increase in our offering of proprietary products and increased buying power. We have acquired many Specialty businesses, which tend to have more proprietary products in their offerings and consequently higher gross margins than our Essentials businesses. The Specialty businesses have also experienced higher revenue growth than the Essentials businesses, resulting in a product mix with higher gross margins. In addition, our growth has increased our purchasing power, resulting in reduced costs of the products we purchase. Further, through the vertical acquisitions of School Specialty Publishing and Califone, we have acquired suppliers and have thereby captured the suppliers' margins. Another factor contributing to the increase in gross margin is the direct sourcing of product through overseas channels.

Our historical operating profit and margins have been substantially impacted by the timing of our acquisitions and the integration of acquired businesses. In fiscal 2003, our operating profit and margin from continuing operations were $82.8 million and 9.8%, respectively. In fiscal 2007, our operating income and margin from continuing operations were $93.8 million and 9.0%, respectively.

Our business and working capital needs are highly seasonal with peak sales levels occurring from June through October. During this period, we receive, ship and bill the majority of our business so that schools and teachers receive their merchandise by the start of each school year. Our inventory levels increase in April through June in anticipation of the peak shipping season. The majority of shipments are made between June 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 two quarters of our fiscal year and operate at a net loss in our third and fourth fiscal quarters.

Our business is highly seasonal, and the acquisitions of seasonal businesses during the off season has depressed operating and net income in the year of acquisition, the most dramatic of which in recent years was the Delta Education acquisition in fiscal 2006.

The Company announced in fiscal 2007 its intention to sell the School Specialty Media ("SSM") business unit. The intended sale of the Hawthorne, New York-based SSM reflects the Company's desire to focus investments and management's attention on those businesses that advance the Company's long-term growth strategies. It also represents a first step in the Company's effort to create a less complex organization that is more customer focused and more efficient. The Company has reflected SSM as a discontinued operation in the accompanying consolidated statements of operations.

Results of Continuing Operations

The following table sets forth certain information as a percentage of revenues on a historical basis concerning our results of operations for the fiscal years 2007, 2006 and 2005:

	Fiscal Year		
	2007	2006	2005
Revenues	100.0 %	100.0 %	100.0 %
Cost of revenues	57.3	58.2	59.1
Gross profit	42.7	41.8	40.9
Selling, general and administrative expenses	33.7	35.7	31.9
Merger-related expenses	-	0.5	-
Operating income	9.0	5.6	9.0
Interest expense, net	2.1	2.0	1.3
Other expense	0.6	0.4	0.2
Redemption costs and fees for convertible debt redemption	-	-	0.2
Income before provision for income taxes	6.3	3.2	7.3
Provision for income taxes	2.5	1.3	2.9
Earnings from continuing operations	3.8 %	1.9 %	4.4 %

Consolidated Historical Results of Continuing Operations

Fiscal 2007 Compared to Fiscal 2006

The following discussion and analysis of fiscal 2007 results compared to fiscal 2006 results, is based on a comparison of the Company's results of operations from continuing operations.

Overview of Fiscal 2007

Revenues from continuing operations for fiscal 2007 increased 6.7% to $1.043 billion as compared to $977.3 million in fiscal 2006. This increase was related primarily to the inclusion of a full year of revenues from the August, 2005 acquisition of Delta Education LLC ("Delta"). The Company's product mix continued to shift to the higher margin proprietary products, with the Specialty segment comprising 54.8% of revenues in fiscal 2007 as compared with 52.0% in fiscal 2006. This shift in product mix to higher margin Specialty products expanded gross margins to 42.7% from 41.8%.

Operating income was $93.8 million in fiscal 2007 as compared to $54.2 million in fiscal 2006. Operating margins increased from 6.1% in fiscal 2006 (before terminated merger costs) to 9.0% in fiscal 2007. The increase in the operating income and operating margin were related to the increased revenues and expansion in the gross margin due to the aforementioned product mix shift, as well as expense reductions due to cost control initiatives and non-recurring expenses in fiscal 2006.

Revenue

Revenues increased 6.7% from $977.3 million in fiscal 2006 to $1.043 billion in fiscal 2007. The growth in revenues was attributable primarily to the acquisition of Delta. Specialty segment revenues increased 12.3% from $527.2 million in fiscal 2006 (which included $19.2 million of intersegment revenues) to $591.9 million in fiscal 2007 (which included $20.5 million of intersegment revenues). The increase in Specialty segment revenues was due primarily to the Delta acquisition as fiscal 2007 included a full twelve months of activity from Delta, in addition to organic growth in the Specialty segment. Essentials segment revenues increased 0.5% from $468.8 million in fiscal 2006 (which includes $0.1 million of intersegment revenues) to $471.1 million in fiscal 2007 (which includes $0.1 million of intersegment revenues). The increase in Essentials segment revenues was related to modest increases in both the consumable and furniture product offerings.

Gross Profit

Gross profit increased 9.0% to $445.6 million compared with $408.7 million in fiscal 2006. The increase in gross profit was primarily due to the increase in revenues and the shift in revenue mix to the higher margin specialty products. The revenue mix shift to the higher margin specialty products was the main reason for the 90 basis point improvement in gross margins from 41.8% in fiscal 2006 to 42.7% in fiscal 2007. In addition to the revenue mix, our gross margins were affected by the continuation of the global sourcing initiative, which is translating into lower product costs, and the increase in offerings of private label products that carry higher margins. Offsetting the gross margin expansion associated with global sourcing and increased private label products were the continued pricing and competitive pressures that we experienced in more of our commodity type products. Specialty segment gross profit increased $37.0 million or 14.3% from $258.2 million in fiscal 2006 to $295.2 million in fiscal 2007. The increase in Specialty segment gross profit was due to the increased revenues and gross margin improvement. The 90 basis point improvement from 49.0% in fiscal 2006 to 49.9% in fiscal 2007 was due primarily to the acquisition of Delta. Essentials segment gross profit was up from $151.6 million to $152.0 million. The increase in gross profit was related to the increased revenues.

Selling, General and Administrative Expenses

Selling, general and administrative expenses ("SG&A") include selling expenses, the most significant of which are sales wages and commissions; operations expenses, which include customer service, warehouse and out-bound freight costs; catalog costs; general administrative overhead, which includes information systems, accounting, legal and human resources; depreciation and intangible asset amortization expense.

SG&A increased 0.7% or $2.5 million from $349.3 million, or 35.7% of revenues, in fiscal 2006 to $351.8 million, or 33.7% of revenues, in fiscal 2007. The increase in SG&A costs was due primarily to the incremental variable costs associated with the $65.9 million incremental revenues, the fixed costs associated with the inclusion of Delta and stock-based compensation expense. These increases were offset by cost reduction initiatives, which included headcount reductions, supply chain productivity enhancements and non-recurring expenses incurred in fiscal 2006.

Specialty segment SG&A increased from $204.1 million in fiscal 2006 to $211.6 million in fiscal 2007. However, Specialty segment SG&A decreased as a percent of revenues from 38.7% in fiscal 2006 to 35.8% in fiscal 2007. The increase in SG&A was due to the incremental four months of expenses related to the Delta acquisition and stock-based compensation expense of $1.6 million. The decrease in SG&A as a percent of revenue was primarily attributable to supply chain efficiencies, reduced catalog costs and headcount reductions. The reduction in catalog costs was achieved through the optimization of the circulation which reduced the number of unproductive catalogs mailed. The headcount reductions were primarily related to the integration of Delta.

Essentials segment SG&A decreased $0.5 million from $105.7 million or 22.5% of revenues in fiscal 2006 to $105.2 million or 22.3% of revenues for fiscal 2007. The decrease was primarily related to a headcount reduction as a result of sales force integration. In addition, there was a reduction in supply chain costs as the Essentials segment revenue shifted towards a higher mix of furniture which is shipped to the customers directly from the Company's vendors. These decreases were partially offset by increased marketing costs associated with the Company's School Smart brand and $0.8 million of stock-based compensation expense.

Corporate SG&A decreased by $4.5 million from $39.5 million in fiscal 2006 to $35.0 million in fiscal 2007. The decrease was related to non-recurring charges in fiscal 2006 related to the closure of the Southaven, Mississippi distribution center and reduction in headcount. These reductions were partially offset by planned investments in technology and $2.1 million of stock-based compensation expense.

Terminated Merger Costs

During fiscal 2006, the Company incurred $5.2 million of accounting, legal and other transaction-related costs associated with the terminated merger.

Net Interest Expense

Net interest expense increased $2.9 million from $19.2 million in fiscal 2006 to $22.1 million in fiscal 2007. The increase in interest expense was primarily due to an increase in average debt outstanding, offset to some extent by a lower effective borrowing rate attributable to the Company's November, 2006 sale of $200.0 million principal amount of subordinated debentures due 2026 at an interest rate of 3.75%. The Company used the proceeds of this debt offering to pay down its higher rate revolver debt and to repurchase shares of the Company's common stock under its 2007 share repurchase program.

Other Expense

Other expense, which primarily consists of the discount and loss on the accounts receivable securitization, was $6.0 million in fiscal 2007 as compared to $4.2 million in fiscal 2006. The $1.8 million increase in the discount and loss was primarily due to the increased average securitized receivables primarily related to the Delta acquisition as well an increase in the effective discount rate on the accounts receivable securitization.

Provision for Income Taxes

Provision for income taxes increased to $26.5 million in fiscal 2007 from $12.6 million in fiscal 2006. The increase was due to higher pre-tax income. The effective income tax rate was 40.3% in fiscal 2007 as compared to 40.8% in fiscal 2006. The reduction between years is related to a decrease in state and foreign income taxes offset by the tax treatment of incentive stock options in accordance with SFAS No. 123R. The effective income tax rate exceeds the federal statutory rate of 35% in both years primarily due to the impact of state and foreign taxes.

Fiscal 2006 (52 weeks) Compared to Fiscal 2005 (53 weeks)

The following discussion and analysis of fiscal 2006 results compared to fiscal 2005 results, is based on a comparison of the Company's results of operations from continuing operations.

Overview of Fiscal 2006

On August 31, 2005, the Company acquired Delta Education, LLC ("Delta") for an aggregate purchase price, net of cash acquired, of $270.3 million. The business operates from Nashua, New Hampshire and is the exclusive publisher of inquiry based hands-on science curriculum for the elementary school market developed by the University of California, Berkeley. Its products include comprehensive science kits, books, instructional materials and education software. This business was merged with our existing science business, Frey Scientific. As part of the transaction, we also acquired Delta's Educators Publishing Service division, a supplemental publisher of reading titles for grades K-8 which integrated into our existing publishing business. The results of this acquisition have been included in the Specialty segment since the date of acquisition.

Revenues for fiscal 2006 increased 0.7% to $977.3 million as compared to $970.4 million in fiscal 2005. The revenue growth was driven by the acquisition of Delta, partially offset by the impact of an extra week of revenues in fiscal 2005 and a modest decline in revenues in both segments. We believe the modest decline in revenues was the result of schools unexpectedly increasing their expenditures on fuel and health-related costs, which conversely reduced funds available and consequently their spending on supplemental education products and equipment. We continued to drive our product mix to higher margin proprietary products, with the Specialty segment representing 52.0% of revenues in fiscal 2006 as compared with 49.9% in fiscal 2005. This shift in product mix to higher margin specialty products expanded gross margins to 41.8% from 40.9%.

Operating income was $54.2 million in fiscal 2006 as compared to $87.4 million in fiscal 2005. Fiscal 2006 results included $5.2 million in terminated merger transaction costs and an operating loss of $4.0 million from Delta, driven primarily by acquiring Delta after their peak sales season. Included in selling, general and administrative expenses in fiscal 2006 was $5.6 million of facility closure and redundancy costs primarily related to the closure of our Southaven, Mississippi facility and the integration of our Frey business into Delta; $4.3 million in excess costs related to the start-up of our Mount Joy, Pennsylvania facility and $3.0 million in costs related to the start-up of Symposium and investments in our AWARD businesses.

Revenues

Revenues increased 0.7% from $970.4 million in fiscal 2005 to $977.3 million in fiscal 2006. The growth in revenues was attributable to revenues from acquired businesses, partially offset by an extra week of revenues in fiscal 2005 and a modest decline in revenues of the non-acquired businesses in both segments. Specialty segment revenues increased 5.0% from $502.2 million in fiscal 2005 (which includes $17.5 million of intersegment revenues) to $527.2 million in fiscal 2006 (which includes $19.2 million of intersegment revenues). The increase in Specialty segment revenues was primarily due to acquisitions, partially offset by fiscal 2005 including an extra week and a modest decline in some Specialty businesses. Essentials segment revenues decreased 3.6% from $486.2 million in fiscal 2005 (which includes $0.2 million of intersegment revenues) to $468.8 million in fiscal 2006 (which includes $0.1 million of intersegment revenues). The decline in Essentials segment revenues was primarily the result of fiscal 2005 including an extra week and a modest decline in revenues from consumable products.

Gross Profit

Gross profit increased 3.0% from $396.9 million in fiscal 2005 to $408.7 million in fiscal 2006. The increase in gross profit was primarily due to an increase in revenues and improved gross margins mainly related to a shift in revenues to the higher gross margin Specialty segment and a decrease in product costs through the direct sourcing of product from overseas channels. Gross margin improved 90 basis points to 41.8% of revenues in fiscal 2006 as compared to 40.9% of revenues in fiscal 2005. The increase in gross margin was primarily driven by an increase in sales of higher margin proprietary products by the Specialty segment as a percentage of overall sales mix, reduced costs of products associated with our global sourcing initiative and price expansion in the Essentials segment, particularly in the furniture lines. Specialty segment gross profit increased $13.1 million or 5.3% from $245.1 million in fiscal 2005 to $258.2 million in fiscal 2006. The increase in Specialty segment gross profit was due to the aforementioned increased revenues and gross margin improvement. The 20 basis point improvement in gross margin from 48.8% in fiscal 2005 to 49.0% in fiscal 2006 was primarily driven by acquired businesses, which have a higher gross margin than the average gross margin of our existing Specialty segment businesses. Essentials segment gross profit was $151.6 million in fiscal 2006 as compared with $154.6 million in fiscal 2005. The decline in gross profit in fiscal 2006 is due to reduced revenue, partially offset by gross margin expansion from 31.8% in fiscal 2005 to 32.3% in fiscal 2006, driven by improved margins in all business lines, particularly furniture.

Selling, General and Administrative Expenses

Selling, general and administrative expenses ("SG&A") include selling expenses, the most significant of which are sales wages and commissions; operations expenses, which includes customer service, warehouse and out-bound freight costs; catalog costs; general administrative overhead, which includes information systems, accounting, legal and human resources; and depreciation and intangible asset amortization expense.

SG&A increased 12.8% or $39.7 million from $309.6 million or 31.9% of revenues in fiscal 2005 to $349.3 million or 35.7% of revenues in fiscal 2006. The increase in SG&A resulted from an increase in costs associated with the off-season acquisition of Delta, $5.6 million of facility closure and redundancy costs primarily related to the closure of our Southaven, Mississippi facility and the integration of our Frey business into Delta; $4.3 million in excess costs related to the start-up of our Mount Joy, Pennsylvania facility and $3.0 million in costs related to the start-up

of AWARD and Symposium. Additionally, revenues from the Specialty segment increased as a percentage of our overall revenue mix. The Specialty segment typically requires higher SG&A costs to support the proprietary product base and marketing and merchandising efforts. Partially offsetting these increases is a reduction in warehouse and transportation costs as a percent of revenues. The cost reductions have been achieved through improved operational efficiencies.

Specialty segment SG&A increased from $172.4 million in fiscal 2005 to $204.1 million in fiscal 2006. Specialty segment SG&A as a percent of revenues, increased from 34.3% in fiscal 2005 to 38.7% in fiscal 2006. The increase in Specialty segment SG&A was primarily due the inclusion of Delta, $4.3 million in excess costs related to the start-up of our Mount Joy, Pennsylvania facility, and $3.0 million in costs related to the start-up of AWARD and Symposium. Essentials segment SG&A decreased $3.9 million from $109.6 million in fiscal 2005 to $105.7 million in fiscal 2006, representing 22.5% of revenues for both years.

Corporate SG&A increased $11.9 million from $27.6 million in fiscal 2005 to $39.5 million in fiscal 2006. The increase in corporate SG&A is due to the closure of our Southaven, Mississippi facility and planned investments in technology and marketing related initiatives.

Costs Related to the Terminated Merger of School Specialty, Inc.

During fiscal 2006, we incurred $5.2 million of merger-related expenses consisting of accounting, legal and other transaction-related costs.

Net Interest Expense

Net interest expense increased $6.3 million from $12.9 million in fiscal 2005 to $19.2 million in fiscal 2006. The increase in interest expense was due to an increase in average debt outstanding, primarily due to the acquisition of Delta, which was funded through borrowings under our credit facility, and an increase in our effective borrowing rate.

Other Expense and Convertible Debt Redemption Costs

Other expense, which primarily consists of the discount and loss on the accounts receivable securitization, was $4.2 million in fiscal 2006 as compared to $2.1 million in fiscal 2005. The increase in the discount and loss was due to an increase in the discount rate. In August 2004, $34.8 million in aggregate principal amount of our 6.0% convertible subordinated notes were redeemed for cash. As a result, we recorded $1.8 million of expense comprised of $1.2 million related to the premium on redemption of the notes and $0.6 million to write off deferred financing costs related to the notes.

Provision for Income Taxes

Provision for income taxes was $12.6 million in fiscal 2006 compared with $27.4 million in fiscal 2005. The decrease was due to lower pre-tax income in fiscal 2006. The effective income tax rate in fiscal 2006 was 40.8% as compared to 38.9% in fiscal 2005. The effective rate in 2006 is higher than fiscal 2005 due to the impact of foreign income taxes that are assessed at a higher rate than the federal statutory rate. Our fiscal 2005 effective income tax rate of 38.9% exceeds the federal statutory rate of 35% primarily due to the impact of state taxes.

Discontinued Operation

As mentioned under 'Background' in this Item 7, the Company has been authorized by the Board of Directors to sell the School Specialty Media ("SSM") business unit, and the Company has classified SSM as a discontinued

operation. In fiscal 2007 the discontinued operation resulted in a $21.2 million loss, net of tax. The operations of the SSM business unit resulted in a net of tax loss of $3.4 million and a net of tax impairment charge of $17.8 million was recorded in anticipation of the intended sale.

In fiscal 2006 the discontinued operation resulted in an $18.2 million loss, net of tax. The operations of the SSM business unit resulted in a net of tax loss of $1.8 million and a net of tax impairment charge of $16.4 million was recorded. SSM results for fiscal 2005, net of tax, were negligible.

Liquidity and Capital Resources

At April 28, 2007, we had working capital of $34.1 million. Our capitalization at April 28, 2007 was $939.2 million and consisted of debt of $426.7 million and shareholders' equity of $512.5 million.

Our credit facility matures on February 1, 2011 and provides for $350.0 million of revolving loan availability and $100.0 million incremental term loan availability. The amount outstanding as of April 28, 2007 under the revolving and incremental term loans was $77.5 million and $0, respectively. The credit facility is secured by substantially all of our assets and contains certain financial and other covenants. Our borrowings are usually significantly higher during the first two quarters of our fiscal year to meet the working capital requirements of our peak selling season. As of April 28, 2007, our effective interest rate on borrowings under our credit facility was approximately 6.67%, which excludes amortization of loan origination and commitment fees on unborrowed funds. During fiscal 2007, we incurred commitment fees on unborrowed funds under the credit facility of $0.5 million and amortized loan origination fee costs of $0.3 million. The credit facility contains certain financial covenants, including a consolidated total and senior leverage ratio, a consolidated fixed charge ratio and a limitation on capital expenditures. The Company was in compliance with these covenants at April 28, 2007.

The $133.0 million, 3.75% convertible subordinated notes became convertible during the second quarter of fiscal 2006 as the closing price of the Company's common stock exceeded $48.00 for the specified amount of time. As a result, holders of the notes may surrender the notes for conversion at any time from October 1, 2005 until July 31, 2023. The notes are recorded as a current liability. Holders that exercise their right to convert the notes will receive up to the accreted principal amount in cash, with the balance of the conversion obligation, if any, to be satisfied in shares of Company common stock or cash, at the Company's discretion. No notes have been converted into cash or shares of common stock as of April 28, 2007. The notes can be redeemed at the option of the Company no earlier than August 7, 2008.

Net cash provided by operating activities increased $14.0 million from $76.8 million in fiscal 2006 to $90.9 million for fiscal 2007. The increase in cash provided by operating activities was primarily related to the increased net income. Partially offsetting the increase was an increased aging of our accounts receivable associated with the mix towards furniture revenues which historically have longer collection times, increased inventory in preparation of the upcoming season, and the liquidation of the acquired working capital of Delta last year. These decreases were partially offset by an increase in accrued liabilities, primarily related to incremental income taxes payable attributable to the increased net income.

Net cash used in investing activities for fiscal 2007 was $27.0 million, compared to $301.3 million for fiscal 2006, which included $270.3 million for the acquisition of Delta. Additions to property, plant and equipment increased $2.5 million from $15.7 million in fiscal 2006 to $18.2 million in fiscal 2007, primarily consisting of costs related to the continued implementation of our new enterprise resource planning platform.

Net cash used in financing activities was $63.8 million in fiscal 2007 as compared to net cash provided by financing activities of $222.6 million in fiscal 2006. The net cash used in financing activities in fiscal 2007 reflected the repurchase of 2.1 million shares of our common stock at a net cost of $76.5 million. See Part II, Item 2, Issuer Purchases of Equity Securities for additional information regarding share repurchases. Net cash provided by financing activities in fiscal 2006 was used primarily to fund the Delta acquisition.

On November 22, 2006, we sold $200.0 million of convertible subordinated debentures due 2026. The debentures are

unsecured, subordinated obligations of the Company, pay interest at 3.75% per annum on each May 30th and November 30th, and are convertible upon satisfaction of certain conditions. In connection with any such conversion, we will deliver cash equal to the lesser of the aggregate principal amount of debentures to be converted and our total conversion obligation, and will deliver, at our option, cash or shares of our common stock in respect of the remainder, if any, of our conversion obligation. The initial conversion rate is 19.4574 shares per $1,000 principal amount of debentures, which represents an initial conversion price of approximately $51.39 per share. The debentures are redeemable at our option on or after November 30, 2011. On November 30, 2011, 2016 and 2021 and upon the occurrence of certain circumstances, holders will have the right to require us to repurchase all or some of the debentures. We used a portion of the proceeds to repurchase approximately 1.1 million shares of our common stock at a cost of $40.0 million. The remaining proceeds were used to pay down a portion of our existing debt under the credit facility.

On June 5, 2007 we announced that our Board of Directors approved a share repurchase program, which allows us to purchase up to $45.0 million of our outstanding common stock. Purchases under the share repurchase program may be made from time to time in the open market or privately negotiated transactions. Common stock acquired through the share repurchase program will be available for general corporate purposes.

We anticipate that our cash flow from operations, borrowings available from our existing credit facility and other sources of capital will be sufficient to meet our liquidity requirements for operations, including anticipated capital expenditures and our contractual obligations for the foreseeable future.

We expect our fiscal 2008 capital expenditures to be approximately $19.0 to $21.0 million and to consist primarily of computer hardware and software costs related to the continued implementation of the new enterprise resource planning platform and warehouse equipment costs. We expect our investment in product development to be approximately $11.0 to $13.0 million.

Off Balance Sheet Arrangements

We have an accounts receivable securitization facility. The facility expires January 30, 2008 and it may be extended further with the financial institution's consent. The facility permits advances up to $175.0 million from July 1 through November 30 of each year, and advances up to $75.0 million from December 1 through June 30 of each year. We entered into the facility for the purpose of reducing our variable rate interest expense. At April 28, 2007 and April 29, 2006, respectively, $50.0 million was advanced under the accounts receivable securitization and accordingly, that amount of accounts receivable has been removed from our consolidated balance sheets. Costs associated with the sale of receivables, primarily related to the discount and loss on sale, for the fiscal years 2007, 2006 and 2005 were $6.0, $3.6 and $2.1 million, respectively. The increase in these costs was related to higher average balance of accounts receivable securitized due to the increase in the advance limits permitted by the facility. These costs are included as a component of other expense in our consolidated statements of operations.

Summary of Contractual Obligations

The following table summarizes our contractual debt and operating lease obligations as of April 28, 2007:

	Payments Due (in thousands)				
	Total	Less than 1 year	1 - 3 years	3 - 5 years	More than 5 years
Long-term debt obligations (1)………………	$ 125,205	$ 7,150	$ 14,301	$ 85,474	$ 18,280
Convertible subordinated notes (2)(3)……….	364,323	141,709	15,000	7,614	200,000
Capital lease obligations………………………	81	37	37	7	-
Operating lease obligations……………………	69,376	9,070	14,887	10,065	35,354
Purchase obligations (4)………………………	-	-	-	-	-
Other long-term liabilities reflected on the Company's balance sheet under GAAP…..	145	-	145	-	-
Total contractual obligations…………………	$ 559,130	$ 157,966	$ 44,370	$ 103,160	$ 253,634

(1) Debt obligations include principal and interest payments on our credit facility and sale-leaseback obligations, and assume these obligations remain outstanding until maturity at current or contractually defined interest rates.

(2) Convertible subordinated notes of $133,000 are recorded as a current liability at April 28, 2007 and April 29, 2006. During fiscal 2006 the notes became convertible and may be surrendered for conversion at any time. The notes can be redeemed at the option of the Company no earlier than August 7, 2008. The amount reflected includes principal and accrued interest as of the balance sheet date only. If the notes are held to maturity in 2023, our obligation, including interest at current rates and accreted principal, is $241.8 million.

(3) Convertible subordinated notes of $200,000 are recorded as maturing in more than five years as the bonds are not currently convertible. The notes can be redeemed at the option of the Company no earlier than November 30, 2011. The amounts reflected for these notes include accrued interest at the balance sheet date and interest at 3.75% through November 30, 2011.

(4) As of April 28, 2007, we did not have any material long-term purchase obligations. The short-term purchase obligations the Company had as of April 28, 2007 were primarily for the purchase of inventory in the normal course of business.

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, 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 years 2007 and 2006 (in thousands, except per share data). We derived this quarterly data from our unaudited consolidated financial statements.

	Fiscal 2007 (1)				
	First	**Second**	**Third**	**Fourth**	**Total**
	(13 weeks)	(13 weeks)	(13 weeks)	(13 weeks)	(52 weeks)
Revenues	$ 377,071	$ 371,225	$ 128,816	$ 166,040	$ 1,043,152
Gross profit	167,911	154,821	50,856	72,049	445,637
Operating income (loss)	69,072	56,931	(20,725)	(11,480)	93,798
Earnings (loss) from continuing operations, net of income taxes	37,745	29,644	(16,906)	(11,258)	39,225
Earnings (loss) from discontinued operations, net of income taxes	(878)	(442)	(1,917)	(17,942)	(21,179)
Net income (loss)	36,867	29,202	(18,823)	(29,200)	18,046
Basic earnings per share of common stock:					
Earnings (loss) from continuing operations	$ 1.65	$ 1.33	$ (0.79)	$ (0.53)	$ 1.79
Earnings (loss) from discontinued operations	(0.04)	(0.02)	(0.09)	(0.85)	(0.96)
Total	$ 1.61	$ 1.31	$ (0.88)	$ (1.38)	$ 0.83
Diluted earnings per share of common stock:					
Earnings (loss) from continuing operations	$ 1.60	$ 1.29	$ (0.79)	$ (0.53)	$ 1.74
Earnings (loss) from discontinued operations	(0.03)	(0.01)	(0.09)	(0.85)	(0.94)
Total	$ 1.57	$ 1.28	$ (0.88)	$ (1.38)	$ 0.80

	Fiscal 2006 (1)				
	First	**Second**	**Third**	**Fourth**	**Total**
	(13 weeks)	(13 weeks)	(13 weeks)	(13 weeks)	(52 weeks)
Revenues	$ 347,335	$ 331,733	$ 126,863	$ 171,371	$ 977,302
Gross profit	150,331	137,897	49,458	70,993	408,679
Operating income (loss)	59,431	37,483	(28,617)	(14,122)	54,175
Earnings (loss) from continuing operations, net of income taxes	34,494	19,194	(21,789)	(13,651)	18,248
Earnings (loss) from discontinued operations, net of income taxes	102	1,374	(735)	(18,928)	(18,187)
Net income (loss)	34,596	20,568	(22,524)	(32,579)	61
Basic earnings per share of common stock:					
Earnings (loss) from continuing operations	$ 1.50	$ 0.84	$ (0.95)	$ (0.59)	$ 0.80
Earnings (loss) from discontinued operations	0.01	0.06	(0.03)	(0.83)	(0.80)
Total	$ 1.51	$ 0.90	$ (0.98)	$ (1.42)	$ 0.00
Diluted earnings per share of common stock:					
Earnings (loss) from continuing operations	$ 1.43	$ 0.79	$ (0.95)	$ (0.59)	$ 0.77
Earnings (loss) from discontinued operations	0.01	0.06	(0.03)	(0.83)	(0.77)
Total	$ 1.44	$ 0.85	$ (0.98)	$ (1.42)	$ 0.00

(1) On August 31, 2005, we acquired Delta, a seasonal business that generated operating and net losses during the third and fourth quarters of fiscal 2006. Fiscal 2007 includes the results of Delta for all quarters listed.

Inflation

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

Critical Accounting Policies

We believe the policies identified below are critical to our business and the understanding of our results of operations. The impact and any associated risks related to these policies on our business are discussed throughout MD&A where applicable. Refer to the notes to our consolidated financial statements in Item 8 for detailed discussion on the application of these and other accounting policies. The preparation of the consolidated financial statements 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. We evaluate our estimates and assumptions on an ongoing basis and base them on a combination of historical experience and various other assumptions that we believe to be reasonable under the circumstances. Actual results could differ from those estimates. Our critical accounting policies that require significant judgments and estimates and assumptions used in the preparation of our consolidated financial statements are as follows:

Revenue Recognition

Revenue, net of estimated returns and allowances, is recognized upon the shipment of products or upon the completion of services provided to customers, which corresponds to the time when risk of ownership transfers, the selling price is fixed, the customer is obligated to pay and we have no significant remaining obligations. Cash received in advance from customers is deferred on our balance sheet as a current liability and recognized upon the shipment of products or upon the completion of services provided to the customers.

Catalog Costs and Related Amortization

We spend over $40.0 million annually to produce and distribute catalogs. We accumulate all direct costs incurred, net of vendor cooperative advertising payments, in the development, production and circulation of our catalogs on our balance sheet until such time as the related catalog is mailed. They are subsequently amortized into SG&A over the expected sales realization cycle, which is one year or less. Consequently, any difference between our estimated and actual revenue stream for a particular catalog and the related impact on amortization expense is neutralized within a period of one year or less. Our estimate of the expected sales realization cycle for a particular catalog is based on, among other possible considerations, our historical sales experience with identical or similar catalogs and our assessment of prevailing economic conditions and various competitive factors. We track our subsequent sales realization, reassess the marketplace, and compare our findings to our previous estimate and adjust the amortization of our future catalogs, if necessary.

Development Costs

We accumulate external and certain internal costs incurred in the development of our products which can include a master copy of a book, video or other media, on our balance sheet. As of April 28, 2007, we had $18.0 million in net development costs on our balance sheet. A majority of these costs are associated with our publishing, science and visual media businesses. The capitalized development costs are subsequently amortized into cost of revenues over the expected sales realization cycle of the products, which is typically five years. During fiscal 2007, we amortized development costs of $3.7 million to expense related to our continuing businesses. We continue to monitor the expected sales realization cycle for each product, and will adjust the remaining expected life of the development costs or recognize an impairment, if warranted. During fiscal 2007 we recorded a $3.6 million impairment charge related to product development costs at our SSM business unit in addition to a $1.0 million impairment charge related to product development costs at SSM recorded in fiscal 2006.

Goodwill and Intangible Assets, and Long-Lived Assets

At April 28, 2007, goodwill and intangible assets represented approximately 64.6% of our total assets. Determining the recoverability of these assets requires considerable judgment and is evaluated on an annual basis or more frequently if events or circumstances indicate that the assets may be impaired.

As it relates to goodwill and indefinite life intangible assets, we apply the impairment rules in accordance with SFAS No. 142, "Goodwill and Other Intangible Assets." As required by SFAS No. 142, the recoverability of these assets is subject to a fair value assessment which includes judgments regarding financial projections, including forecasted cash flows and discount rates, and comparable market values. As it relates to finite life intangible assets, we apply the impairment rules as required by SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets" which also requires significant judgments related to the expected future cash flows attributable to the intangible asset. The impact of modifying any of these assumptions can have a significant impact on the estimate of fair value and, thus, the estimated recoverability, or impairment, if any, of the asset.

During fiscal 2007, we recorded a $13.1 million goodwill impairment charge, a $10.4 million intangible asset impairment charge and a $0.3 million impairment of property, plant and equipment related to the SSM business unit in addition to a $25.6 million goodwill impairment charge related to SSM recorded in fiscal 2006. As of April 28, 2007, no remaining goodwill or intangible assets were recorded as assets related to SSM. The impairment was the result of deteriorating financial performance. During the fourth quarter of fiscal 2007, the Board of Directors authorized the sale of SSM and we have reflected SSM as a discontinued operation in the accompanying consolidated statements of operations.

Item 7A. <u>Quantitative and Qualitative Disclosure About Market Risk</u>

Our financial instruments include cash and cash equivalents, accounts receivable, accounts payable, accrued liabilities and debt. Market risks relating to our operations result primarily from changes in interest rates. Our borrowings under our credit facility and our discount expense related to our accounts receivable securitization are primarily dependent upon LIBOR rates. Assuming no change in our financial structure, if variable interest rates were to average 100 basis points higher during fiscal 2007, pre-tax earnings would have decreased by approximately $2.6 million. This amount was determined by considering a hypothetical 100 basis point increase in interest rates on average variable-rate debt outstanding and the average advanced under the accounts receivable securitization facility during fiscal 2007. The estimated fair value of long-term debt approximated its carrying value at April 28, 2007, with the exception of our convertible debt which at April 28, 2007 had a carrying value of $333.0 million and a fair market value of $326.7 million.

Item 8. Financial Statements and Supplementary Data

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholders of
School Specialty, Inc.
Greenville, Wisconsin

We have audited the accompanying consolidated balance sheets of School Specialty, Inc., and subsidiaries (the "Company") as of April 28, 2007 and April 29, 2006, and the related consolidated statements of operations, shareholders' equity, and cash flows for each of the three years in the period ended April 28, 2007. Our audits also included the financial statement schedule listed in the Index at Item 15(a)(2). These financial statements and financial statement schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on the financial statements and financial statement schedule based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of School Specialty, Inc. and subsidiaries as of April 28, 2007 and April 29, 2006, and the results of their operations and their cash flows for each of the three years in the period ended April 28, 2007 in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, such financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly in all material respects, the information set forth therein.

As discussed in Note 13 to the consolidated financial statements, on April 30, 2006, the Company adopted Statement of Financial Accounting Standard No. 123(R), *Share Based Payment*.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the effectiveness of the Company's internal control over financial reporting as of April 28, 2007, based on the criteria established in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated June 25, 2007 expressed an unqualified opinion on management's assessment of the effectiveness of the Company's internal control over financial reporting and an unqualified opinion on the effectiveness of the Company's internal control over financial reporting.

/s/ DELOITTE & TOUCHE LLP

Milwaukee, Wisconsin
June 25, 2007

FINANCIAL STATEMENTS

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

	April 28, 2007	April 29, 2006
ASSETS		
Current assets:		
Cash and cash equivalents	$ 2,386	$ 2,403
Accounts receivable, less allowance for doubtful accounts of $4,801 and $3,880, respectively	65,900	60,553
Inventories	177,319	158,892
Deferred catalog costs	14,848	21,139
Prepaid expenses and other current assets	16,548	17,415
Refundable federal income taxes	1,850	11,264
Deferred taxes	10,201	7,097
Total current assets	289,052	278,763
Property, plant and equipment, net	77,345	76,774
Goodwill	534,488	582,451
Intangible assets, net	183,660	164,790
Development costs and other	26,334	27,597
Total assets	$ 1,110,879	$ 1,130,375
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Current maturities - long-term debt	$ 133,590	$ 133,578
Accounts payable	77,794	74,919
Accrued compensation	14,709	11,781
Deferred revenue	5,464	4,133
Other accrued liabilities	23,392	19,585
Total current liabilities	254,949	243,996
Long-term debt - less current maturities	293,139	283,629
Deferred taxes	50,101	48,627
Other liabilities	145	390
Total liabilities	598,334	576,642
Commitments and contingencies		
Shareholders' 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; 23,310,461 and 22,962,111 shares issued, respectively	23	23
Capital paid-in excess of par value	367,068	352,865
Treasury stock, at cost - 2,126,121 and 0 shares, respectively	(76,508)	-
Accumulated other comprehensive income	17,763	14,692
Retained earnings	204,199	186,153
Total shareholders' equity	512,545	553,733
Total liabilities and shareholders' equity	$ 1,110,879	$ 1,130,375

See accompanying notes to consolidated financial statements.

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

	For the Fiscal Year Ended		
	April 28, 2007	April 29, 2006	April 30, 2005
	(52 weeks)	(52 weeks)	(53 weeks)
Revenues	$1,043,152	$ 977,302	$ 970,435
Cost of revenues	597,515	568,623	573,488
Gross profit	445,637	408,679	396,947
Selling, general and administrative expenses	351,839	349,302	309,582
Merger-related expenses	-	5,202	-
Operating income	93,798	54,175	87,365
Other (income) expense:			
Interest expense	22,203	19,314	13,058
Interest income	(117)	(128)	(176)
Other	6,019	4,160	2,115
Redemption costs and fees for convertible debt redemption	-	-	1,839
Income before provision for income taxes	65,693	30,829	70,529
Provision for income taxes	26,468	12,581	27,402
Earnings from continuing operations	39,225	18,248	43,127
Earnings (loss) from operations of discontinued School Specialty Media business unit, net of income taxes	(21,179)	(18,187)	(126)
Net income	$ 18,046	$ 61	$ 43,001
Weighted average shares outstanding:			
Basic	21,873	22,898	21,612
Diluted	22,545	23,739	23,910
Basic earnings per share of common stock:			
Earnings from continuing operations	$ 1.79	$ 0.80	$ 2.00
Earnings (loss) from discontinued operations	$ (0.96)	$ (0.80)	$ (0.01)
Total	$ 0.83	$ 0.00	$ 1.99
Diluted earnings per share of common stock:			
Earnings from continuing operations	$ 1.74	$ 0.77	$ 1.88
Earnings (loss) from discontinued operations	$ (0.94)	$ (0.77)	$ (0.00)
Total	$ 0.80	$ 0.00	$ 1.88

See accompanying notes to consolidated financial statements.

SCHOOL SPECIALTY, INC.
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
FOR THE FISCAL YEARS ENDED APRIL 28, 2007, APRIL 29, 2006 and APRIL 30, 2005
(In Thousands)

	Common Stock		Capital Paid-in Excess of Par Value	Treasury Stock, at Cost	Accumulated Other Comprehensive Income	Retained Earnings	Total Shareholders' Equity	Total Comprehensive Income
	Shares	Dollars						
Balance at April 24, 2004	19,070	19	230,258	-	5,607	143,091	378,975	
Issuance of common stock in conjunction with stock option exercises	230	-	5,375				5,375	
Tax benefit on option exercises			1,252				1,252	
Issuance of common stock in conjunction with conversion of convertible debt	3,551	4	114,653				114,657	
Unamortized deferred financing fees related to conversion of convertible debt			(2,117)				(2,117)	
Foreign currency translation adjustment					3,402		3,402	$ 3,402
Net income						43,001	43,001	43,001
Total comprehensive income								$ 46,403
Balance at April 30, 2005	22,851	23	349,421	-	9,009	186,092	544,545	
Issuance of common stock in conjunction with stock option exercises	111	-	2,871				2,871	
Tax benefit on option exercises			573				573	
Foreign currency translation adjustment					5,683		5,683	$ 5,683
Net income						61	61	61
Total comprehensive income								$ 5,744
Balance at April 29, 2006	22,962	$ 23	$ 352,865	$ -	$ 14,692	$ 186,153	$ 553,733	
Issuance of common stock in conjunction with stock option exercises	348	-	7,798				7,798	
Tax benefit on option exercises			1,898				1,898	
Stock based compensation expense			4,507				4,507	
Treasury stock purchases				(76,508)			(76,508)	
Foreign currency translation adjustment					3,071		3,071	$ 3,071
Net income						18,046	18,046	18,046
Total comprehensive income								$ 21,117
Balance at April 28, 2007	23,310	$ 23	$ 367,068	$ (76,508)	$ 17,763	$ 204,199	$ 512,545	

See accompanying notes to consolidated financial statements.

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

	For the Fiscal Year Ended		
	April 28, 2007	**April 29, 2006**	**April 30, 2005**
Cash flows from operating activities:	(52 weeks)	(52 weeks)	(53 weeks)
Net income	$ 18,046	$ 61	$ 43,001
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and intangible asset amortization expense	25,843	23,382	18,119
Amortization of development costs	6,237	4,610	4,418
Impairment Charge	29,000	26,600	-
Amortization of debt fees and other	1,361	1,493	1,405
Share-based compensation expense	4,507	-	-
Deferred taxes	(1,630)	(3,887)	11,639
Loss on redemption of convertible debt	-	-	1,839
Gain on disposal of property, equipment and other	292	424	152
Changes in current assets and liabilities (net of assets acquired and liabilities assumed in business combinations):			
Change in amounts sold under receivables securitization, net	-	2,800	(2,800)
Accounts receivable	(5,995)	22,313	(2,682)
Inventories	(19,503)	601	(890)
Deferred catalog costs	6,291	469	(2,254)
Prepaid expenses and other current assets	14,124	(7,087)	(8,314)
Accounts payable	2,874	11,802	(3,358)
Accrued liabilities	9,413	(6,740)	(8,244)
Net cash provided by operating activities	90,860	76,841	52,031
Cash flows from investing activities:			
Cash paid in acquisitions, net of cash acquired	-	(271,560)	(19,219)
Additions to property, plant and equipment	(18,169)	(15,694)	(23,376)
Investment in intangible and other assets	(202)	(4,391)	(1,710)
Investment in product development costs	(9,684)	(10,321)	(5,835)
Proceeds from business dispositions, net of cash disposed	-	453	193
Proceeds from disposal of property, plant and equipment	1,013	245	128
Net cash used in investing activities	(27,042)	(301,268)	(49,819)
Cash flows from financing activities:			
Proceeds from convertible debt offering	200,000	-	-
Proceeds from bank borrowings	704,400	2,275,000	540,900
Repayment of debt and capital leases	(894,878)	(2,053,574)	(510,360)
Purchase of treasury stock	(76,508)	-	-
Redemption of convertible debt	-	-	(34,843)
Premium on redemption of convertible debt	-	-	(1,195)
Payment of debt fees and other	(5,223)	(1,660)	(265)
Proceeds from exercise of stock options	7,798	2,871	5,375
Excess income tax benefit from exercise of stock options	576	-	-
Net cash provided by (used in) financing activities	(63,835)	222,637	(388)
Net (decrease) increase in cash and cash equivalents	(17)	(1,790)	1,824
Cash and cash equivalents, beginning of period	2,403	4,193	2,369
Cash and cash equivalents, end of period	$ 2,386	$ 2,403	$ 4,193
Supplemental disclosures of cash flow information:			
Interest paid	$ 17,610	$ 17,703	$ 13,520
Income taxes paid	$ 3,443	$ 10,344	$ 17,506
Non-cash financing activities:			
Conversion of convertible debt into common stock	$ -	$ -	$ 112,540

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

The Company paid cash in connection with certain business combinations accounted for under the purchase method in the fiscal years ended April 29, 2006 and April 30, 2005. The fair values of the assets and liabilities of the acquired companies are presented as follows:

	For the Fiscal Year Ended	
	April 29, 2006 (52 weeks)	April 30, 2005 (53 weeks)
Accounts receivable	$ 24,829	$ 1,339
Inventories	22,139	2,228
Prepaid expenses and other current assets	3,785	1,180
Property, plant and equipment	4,042	257
Goodwill (2)	124,041	6,004
Intangible assets (2)	109,326	10,829
Other assets	118	132
Short-term debt and capital lease obligations	(25)	(3)
Accounts payable	(6,934)	(1,802)
Accrued liabilities	(9,586)	(1,120)
Long-term debt and capital lease obligations	(85)	-
Other liabilities	(190)	-
Net assets acquired (1)	$ 271,460	$ 19,044

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(1) Fiscal 2006 cash paid in acquisitions, net of cash acquired, as reported within cash flows from investing activities includes a deferred purchase price payment of $100 related to the October 2001 acquisition of Premier Science. Fiscal 2005 cash paid in acquisitions, net of cash acquired, as reported within cash flows from investing activities includes the payment of $75 to the selling shareholders of Select Agendas and a deferred purchase price payment of $100 related to the October 2001 acquisition of Premier Science.

(2) During fiscal 2007, valuations of the intangible assets acquired in the purchase of Delta Education LLC were finalized. As a result, the Company increased intangible assets recorded by $38,544 from what is reflected in the table with an offsetting decrease to goodwill.

See accompanying notes to consolidated financial statements.

NOTE 1—ORGANIZATION AND BASIS OF PRESENTATION

School Specialty, Inc. (the "Company") is an education company, serving the preK-12 market, with leading brands that provide educators with innovative and proprietary products, programs and services designed to help educators engage and inspire students of all ages and abilities, with operations primarily in the United States and Canada.

The accompanying consolidated financial statements and related notes to consolidated financial statements include the accounts of School Specialty, Inc., its subsidiaries and the companies acquired in business combinations from their respective dates of acquisition. All significant inter-company accounts and transactions have been eliminated.

NOTE 2—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States 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

The Company's fiscal year ends on the last Saturday in April in each year. As used in these consolidated financial statements and related notes to consolidated financial statements, "fiscal 2007," "fiscal 2006" and "fiscal 2005" refer to the Company's fiscal years ended April 28, 2007, April 29, 2006 and April 30, 2005, respectively. All fiscal years reported represent 52 weeks with the exception of fiscal 2005 which had 53 weeks.

Cash and Cash Equivalents

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

Inventories

Inventories, which consist primarily of products held for sale, are stated at the lower of cost or market on a first-in, first-out basis.

Property, Plant and Equipment

Property, plant and equipment are stated at the lower of cost or net realizable value. Additions and improvements are capitalized, whereas maintenance and repairs are expensed as incurred. Depreciation of property, plant 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 sale-leaseback obligations and capital leases are being amortized over the lesser of its useful life or its lease term.

Goodwill and Non-amortizable Intangible Assets

Goodwill represents the excess of cost over the fair value of net assets acquired in business combinations accounted for under the purchase method. Certain intangible assets including a perpetual license agreement and various trademarks and tradenames are estimated to have indefinite lives and are not subject to amortization. Under Statement of Financial Accounting Standards ("SFAS") No. 142, "Goodwill and Other Intangible Assets," goodwill and indefinite-lived intangible assets are not subject to amortization but rather must be tested for impairment annually or more frequently if events or circumstances indicate they might be impaired. The Company performs the annual impairment test during the first quarter of each fiscal year. Amortizable intangible assets include customer relationships, publishing rights, non-compete agreements, trademarks and tradenames, order backlog and

copyrights and are being amortized over their estimated useful lives. During fiscal 2007, the Company recorded a $13,051 goodwill impairment charge related to the School Specialty Media ("SSM") business unit in addition to a $25,600 goodwill impairment charge related to SSM recorded in fiscal 2006. As of April 28, 2007, no remaining goodwill was recorded as an asset related to SSM. The impairment charges and operations of SSM have been reflected as discontinued operations in the accompanying consolidated statements of operations for all periods presented. See Note 3.

Impairment of Long-Lived Assets

As required by SFAS No. 144 "Accounting for the Impairment or Disposal of Long-Lived Assets," the Company reviews property, plant and equipment, definite-lived intangible assets and development costs for impairment if events or circumstances indicate an asset might be impaired. The Company assesses impairment based on undiscounted cash flows and records any impairment based on estimated fair value determined using discounted cash flows. The Company recorded a $14,349 and a $1,000 impairment charge related to long-lived assets of SSM in fiscal 2007 and 2006, respectively See Note 3.

Development Costs

Development costs represent external and internal costs incurred in the development of a master copy of a book, workbook, video or other supplemental educational materials and products. The Company capitalizes development costs and amortizes these costs into costs of revenues over the lesser of five years or the product's life cycle in amounts proportionate to expected revenues. At April 28, 2007 and April 29, 2006, net development costs totaled $17,982 and $22,783, respectively, and are included as a component of development costs and other assets in the consolidated balance sheets.

Fair Value of Financial Instruments

The carrying amounts of the Company's financial instruments including cash and cash equivalents, accounts receivable, including retained interests in securitized receivables, accounts payable, and accrued liabilities approximate fair value given the short maturity of these instruments. The estimated fair value of the credit facility approximated its carrying value at April 28, 2007 and April 29, 2006 given the variable interest rates included with this facility. The Company's convertible debt had a carrying value of $333,000 and a fair market value of $326,660 at April 28, 2007, and a carrying value of $133,000 and a fair market value of $136,159 at April 29, 2006, as determined using the closing bid prices as reported on the National Association of Securities Dealers, Inc.'s Portal Market on April 28, 2007 and April 29, 2006, respectively. The Company's sale-leaseback obligations had a carrying value of $16,154 and $16,663 and a fair market value of $17,214 and $17,342 at April 28, 2007 and April 29, 2006, respectively, as determined using estimated interest rates available at April 28, 2007 and April 29, 2006 for similar long-term borrowings.

Income Taxes

Income taxes 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. Valuation allowances are provided when it is anticipated that some or all of a deferred tax asset is not likely to be realized.

Revenue Recognition

Revenue, net of estimated returns and allowances, is recognized upon the shipment of products or upon the completion of services provided to customers, which corresponds to the time when risk of ownership transfers, the selling price is fixed, the customer is obligated to pay and the Company has no significant remaining obligations. Cash received in advance from customers is deferred on the balance sheet as a current liability and recognized upon the shipment of products or upon the completion of services provided to customers.

Concentration of Credit Risks

The Company grants credit to customers in the ordinary course of business. The majority of the Company's customers are school districts and schools. Concentration of credit risk with respect to trade receivables is limited due to the significant number of customers and their geographic dispersion. During fiscal 2007, 2006 and 2005, no customer represented more than 10% of revenues or accounts receivable.

Vendor Rebates

The Company receives reimbursements from vendors (vendor rebates) based on annual purchased volume of products from its respective vendors. The Company's vendor rebates are earned based on pre-determined percentage rebates on the purchased volume of products within a calendar year. The majority of the rebates are not based on minimum purchases or milestones, and therefore the Company recognizes the rebates on an accrual basis and reduces cost of revenues over the estimated period the related products are sold.

Deferred Catalog Costs

Deferred catalog costs represent costs which have been paid to produce Company catalogs, net of vendor cooperative advertising payments, which will be used in and benefit future periods. Deferred catalog costs are amortized in amounts proportionate to expected revenues over the life of the catalog, which is one year or less. Amortization expense related to deferred catalog costs is included in the consolidated statements of operations as a component of selling, general and administrative expenses. Such amortization expense for fiscal years 2007, 2006 and 2005 was $28,141, $29,132 and $25,236, respectively.

Restructuring

The Company accounts for restructuring costs associated with the closure or disposal of distribution centers in accordance with SFAS No. 146 "Accounting for Costs Associated with Exit or Disposal Activities." During fiscal 2006, $4,002 of expenses related to severance and lease costs was incurred. At April 28, 2007, there was $225 of accrued restructuring costs recorded in other accrued liabilities on the consolidated balance sheet primarily related to lease exit costs of the Southaven, Mississippi distribution center that have no future benefit to the Company.

Shipping and Handling Costs

The Company accounts for shipping and handling costs billed to customers as a component of revenues. The Company accounts for shipping and handling costs incurred as a cost of revenues for shipments made directly from vendors to customers. For shipments made from the Company's warehouses, the Company accounts for shipping and handling costs incurred as a selling, general and administrative expense. The amount of shipping and handling costs included in selling, general and administrative expenses for fiscal years 2007, 2006 and 2005 was $49,128, $44,967 and $41,629, respectively.

Foreign Currency Translation

The financial statements of foreign subsidiaries have been translated into U.S. dollars in accordance with SFAS No. 52, "Foreign Currency Translation." All balance sheet accounts have been translated using the exchange rates in effect at the balance sheet date. Amounts in the statements of operations have been translated using the weighted average exchange rate for the year. Resulting translation adjustments are included in foreign currency translation adjustment within other comprehensive income.

Share-Based Compensation

Beginning in fiscal 2007, the Company accounts for its share-based compensation plans under the recognition and measurement principles of SFAS No. 123(R), *Share-Based Payment* ("SFAS No. 123(R)"). Prior to the adoption of SFAS No. 123(R), the Company accounted for share-based compensation in accordance with Accounting Principles Board Opinion No. 25, *Accounting for Stock Issued to Employees* ("APB 25"). See Note 13.

Recent Accounting Pronouncements

In September 2006, the Financial Accounting Standards Board ("FASB") issued SFAS No. 157, *Fair Value Measurements*. SFAS No. 157 provides enhanced guidance for using fair value to measure assets and liabilities. The standard applies whenever other standards require (or permit) assets or liabilities to be measured at fair value. The standard does not expand the use of fair value in any new circumstances. Under the standard, fair value refers to the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants in the market in which the reporting entity in engaged. SFAS No. 157 will be effective for the Company at the beginning of fiscal 2009 (April 27, 2008), although early adoption is permitted. The Company is currently evaluating the financial statement impact, if any, of adopting SFAS No. 157.

In February 2007, the FASB issued SFAS No. 159, *The Fair Value Options for Financial Assets and Financial Liabilities, Including an Amendment of FASB Statement No. 115* ("SFAS No. 159"). SFAS No. 159 permits entities to choose to measure many financial instruments and certain other items generally on an instrument-by-instrument basis at fair value that are not currently required to be measured at fair value. SFAS No. 159 is intended to provide entities with the opportunity to mitigate volatility in reported earnings caused by measuring related assets and liabilities differently without having to apply complex hedge accounting provisions. SFAS No. 159 does not change requirements for recognizing and measuring dividend income, interest income or interest expense. SFAS No. 159 is effective for the Company at the beginning of fiscal 2009 (April 27, 2008), although early adoption is permitted. If the Company elects to adopt SFAS No. 159 early, it would need to concurrently early adopt the provisions of SFAS No. 157. The Company is currently evaluating the provisions of SFAS No. 159.

In September 2006, the Securities and Exchange Commission issued Staff Accounting Bulletin No. 108, Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements ("SAB 108"). SAB 108 provides guidance on how to evaluate prior period financial statement misstatements for purposes of assessing their materiality in the current period. If the prior period effect is material to the current period, then the prior period is required to be corrected. Correcting prior year financial statements would not require an amendment of prior year financial statements, but such corrections would be made the next time the Company files the prior year financial statements. SAB 108 allows a one-time transitional cumulative effect adjustment to retained earnings for corrections of prior period misstatements required under this statement. SAB 108 is effective for the Company at the beginning of fiscal 2008. The Company does not expect the adoption of SAB 108 to have a material impact to the Company's results of operations or financial position.

In June 2006, the FASB issued FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes – an interpretation of FASB Statement No. 109* ("FIN 48"). FIN 48 clarifies the accounting for uncertainty in income taxes recognized in financial statements in accordance with SFAS No. 109, *Accounting for Income Taxes*. FIN 48 prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. FIN 48 also provides guidance on de-recognition, classification, interest and penalties, accounting in interim periods, disclosure and transition. The provisions of FIN 48 are effective for the Company at the beginning of fiscal 2008 and the adoption of FIN 48 is not expected to have a material impact on the Company's results of operations or financial position.

Reclassifications

Amounts previously reported in Note 14 – Segment Information, under the caption Identifiable Assets, have been reclassified to conform to the current year presentation which reflects substantially all accounts receivable as segment assets rather than corporate assets. In addition, all income and expense items previously reported have been restated to conform to the presentation of Continuing Operations, based on the classification of SSM as a Discontinued Operation. See Note 3.

NOTE 3—DISCONTINUED OPERATION

On April 12, 2007, the Company's Board of Directors authorized the Company's management to proceed with the sale and ultimate disposition of the Company's SSM business unit, which was previously reported as a component of the Specialty segment. Based upon this action, the Company recorded an asset impairment charge during the fourth quarter of fiscal 2007

of $29,000. The charge includes the write-off of SSM's goodwill of $13,051 and intangible assets of $10,410. In addition, the Company wrote down the carrying value of SSM's product development costs by $3,639 and other assets of $1,900. The Company also recorded a $26,600 impairment charge related to SSM in the fourth quarter of fiscal 2006 at the initial onset of deteriorating financial performance and revised expected future results of the business unit. The $26,600 charge included the write-off of goodwill of $25,600 and a reduction in the carrying value of product development costs of $1,000. In accordance with SFAS No. 144, the Company has reflected the impairment charges and operations related to SSM as discontinued operations in the accompanying consolidated statements of earnings for all periods presented. The accompanying consolidated balance sheets include the following assets and liabilities of SSM at April 28, 2007 and April 29, 2006:

	April 28, 2007	April 29, 2006
Accounts receivable	$ 3,174	$ 5,438
Inventory	6,109	6,477
Prepaid catalog and other current assets	3,402	6,345
Property, plant and equipment	185	616
Goodwill and other intangible assets, net	-	24,115
Product development costs	2,839	7,012
Total assets	$ 15,709	$ 50,003
Total current liabilities	$ 772	$ 1,403

The following table illustrates the amounts of revenues and earnings (losses) reported in discontinued operations in the accompanying consolidated statements of operations:

	Fiscal 2007 (52 weeks)	Fiscal 2006 (52 weeks)	Fiscal 2005 (53 weeks)
Revenues	$ 25,358	$ 38,427	$ 32,072
Earnings (loss) from operations of SSM	(5,437)	(2,972)	(205)
Impairment charge	(29,000)	(26,600)	-
Earnings (loss) from discontinued operations before income taxes	(34,437)	(29,572)	(205)
Provision for (benefit from) income taxes	(13,258)	(11,385)	(79)
Earnings (loss) from discontinued operations, net of income taxes	$ (21,179)	$ (18,187)	$ (126)

NOTE 4—BUSINESS COMBINATIONS

Fiscal 2006

On December 14, 2005, the Company acquired certain assets of The Speech Bin, Inc. ("Speech Bin") for an aggregate purchase price of $1,150. This transaction was funded in cash through borrowings under the Company's credit facility. The Speech Bin offers books, products and tools to help educators in the special needs market, focusing on speech and language. This business has been integrated into the Company's Abilitations offering, giving Abilitations a focused vehicle to expand into this segment of the special needs market. The purchase price allocation resulted in $856 of acquired tradenames, which are deductible for tax purposes, with amortizable lives of 10 years. The results of this acquisition have been included in the Specialty segment since the date of acquisition.

On August 31, 2005, the Company acquired all of the membership interests of Delta Education, LLC ("Delta") from Wicks Learning Group, LLC, an affiliate of the Wicks Group of Companies L.L.C., a New York-based private equity firm, for an aggregate purchase price, net of cash acquired, of $270,310. The transaction was funded in cash through borrowings under the Company's credit facility as well as through a $100,000 term loan facility, both of which were subsequently replaced by the Company's Amended and Restated Credit Agreement. The business operates primarily from Nashua, New Hampshire and is the exclusive publisher of inquiry based hands-on science curriculum for the elementary school market developed by the University of California, Berkeley. Its products include comprehensive science kits, books, instructional materials and education software. As part of the transaction, the Company also acquired Delta's Educators Publishing Service division, a supplemental publisher of reading titles for grades K-8. The Delta business complements the Company's Frey Scientific brand, and the Educators Publishing Service division enhances the offerings of the School Specialty Publishing division. The preliminary purchase price allocation resulted in goodwill of $124,041 recorded at April 29, 2006, which is deductible for tax purposes. The final purchase price allocation resulted in goodwill of $86,264 recorded at April 28, 2007, which is deductible for tax purposes. The results of this acquisition have been included in the Specialty segment since the date of acquisition.

The Company engaged a third party to assist the Company in the valuation of Delta's intangible assets. The valuation was preliminary at April 29, 2006. During fiscal 2007, the valuation was finalized with an adjustment being recorded to increase the intangible assets acquired by $38,544, with an offsetting decrease to goodwill. Details of Delta's acquired intangible assets, which are deductible for tax purposes, are as follows:

	Final as of April 28, 2007		Preliminary as of April 29, 2006	
Acquired Intangibles	**Allocated Value**	**Amortizable Life**	**Allocated Value**	**Amortizable Life**
Amortizable intangibles:				
Publishing rights	$ 105,010	15 to 25 years	$ 33,200	10 years
Non-compete agreements	1,600	5 years	-	
Backlog and other	1,514	<1 to 13 years	-	
Customer relationships	-		31,100	15 years
Total	108,124		64,300	
Non-amortizable intangibles:				
Tradenames and trademarks	38,890	N/A	44,170	N/A
Total acquired intangibles	$ 147,014		$ 108,470	

The following information presents the unaudited pro forma results of operations of the Company for fiscal 2006, and includes the Company's consolidated results of operations and the results of the companies acquired during fiscal 2006 as if all such purchase acquisitions had been made at the beginning of fiscal 2006. The results presented below include certain pro forma adjustments to reflect the amortization of certain amortizable intangible assets, adjustments to interest expense, and the inclusion of an income tax provision on all earnings:

	Fiscal 2006 (52 weeks)
Revenue	$1,033,924
Net income	25,955
Net income per share:	
Basic	$1.13
Diluted	$1.09

The pro forma results of operations have been prepared using unaudited historical results of acquired companies. These 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 2006 or the results that may occur in the future.

NOTE 5—GOODWILL AND OTHER INTANGIBLE ASSETS

The following table presents details of the Company's intangible assets, including the range of useful lives, excluding goodwill:

April 30, 2007	Gross Value	Accumulated Amortization	Net Book Value
Amortizable intangible assets:			
Customer relationships (10 to 17 years)	$ 36,014	$ (11,012)	$ 25,002
Publishing rights (15 to 25 years)	105,010	(8,519)	96,491
Non-compete agreements (3.5 to 10 years)	8,576	(4,728)	3,848
Tradenames and trademarks (5 to 30 years)	3,034	(360)	2,674
Order backlog and other (less than 1 to 13 years)	3,666	(1,418)	2,248
Total amortizable intangible assets	156,300	(26,037)	130,263
Non-amortizable intangible assets:			
Perpetual license agreement	12,700	-	12,700
Tradenames and trademarks	40,697	-	40,697
Total non-amortizable intangible assets	53,397	-	53,397
Total intangible assets	$ 209,697	$ (26,037)	$ 183,660

April 29, 2006	Gross Value	Accumulated Amortization	Net Book Value
Amortizable intangible assets:			
Customer relationships (10 to 17 years)	$ 70,202	$ (10,629)	$ 59,573
Publishing rights (10 years)	33,200	(2,213)	30,987
Non-compete agreements (3.5 to 10 years)	6,985	(3,764)	3,221
Copyrighted materials (23 years)	7,100	(514)	6,586
Tradenames and trademarks (5 to 30 years)	4,436	(302)	4,134
Order backlog and other (less than 1 to 10 years)	1,729	(432)	1,297
Total amortizable intangible assets	123,652	(17,854)	105,798
Non-amortizable intangible assets:			
Perpetual license agreement	12,700	-	12,700
Tradenames and trademarks	46,292	-	46,292
Total non-amortizable intangible assets	58,992	-	58,992
Total intangible assets	$ 182,644	$ (17,854)	$ 164,790

Intangible asset amortization expense included in selling, general and administrative expenses for fiscal years 2007, 2006 and 2005 was $9,308, $6,942 and $3,380, respectively.

During fiscal 2007, valuations of the intangible assets acquired in the purchase of Delta were finalized. As a result, the Company increased intangible assets recorded by $38,544 in fiscal 2007 with an offsetting decrease to goodwill.

During the fourth quarter of fiscal 2007, the Company wrote off intangible assets related to SSM with a gross value of $12,363 and an unamortized value of $10,410. See Note 3.

Estimated intangible asset amortization expense for each of the five succeeding fiscal years is:

Year	Amount
2008	$8,583
2009	8,313
2010	8,201
2011	7,887
2012	7,720

The following information presents changes to goodwill during the two-year period ended April 28, 2007:

Segment	Balance at April 30, 2005	Fiscal 2006 Acquisitions	Adjustments	Balance at April 29, 2006	Fiscal 2007 Acquisitions	Adjustments	Balance at April 28, 2007
Specialty…..	$ 314,370	$ 124,041	$ (21,103)	$ 417,308	$ -	$ (47,963)	$ 369,345
Essentials….	165,143	-	-	165,143	-	-	165,143
Total……	$ 479,513	$ 124,041	$ (21,103)	$ 582,451	$ -	$ (47,963)	$ 534,488

The Specialty segment adjustments during fiscal 2006 of $(21,103) are comprised of a $(25,600) impairment charge related to SSM, $4,747 related to foreign currency translation, $100 for a deferred purchase price payment related to the October 2001 acquisition of Premier Science and $(350) related to final purchase accounting adjustments. The Specialty segment adjustments during fiscal 2007 of $(47,963) are comprised of a $(37,777) purchase price adjustment for the finalization of the valuation of intangible and other assets and liabilities acquired from Delta, a $(13,051) impairment charge related to SSM, $2,765 related to foreign currency translation, and $100 for a deferred purchase price payment related to the acquisition of Premier Science.

As a result of the deteriorating financial performance of the SSM business unit during fiscal 2006's fourth quarter, particularly the video line, the Company performed an interim goodwill impairment test. The Company prepared a fair value assessment of the reporting unit, as defined in SFAS No. 142, using a discounted cash flow approach which includes judgments regarding financial projections, including forecasted cash flows and discount rates, and comparable market values. Utilizing updated operating profit and cash flow assumptions of the SSM business unit, the Company recorded a $25,600 goodwill impairment charge. During the fourth quarter of fiscal 2007, it was determined that SSM was not a core business in the Company's growth strategy and therefore, the Company would reduce future investment in SSM. On April 12, 2007, the Company's Board of Directors authorized the Company's management to proceed with the sale and ultimate disposition of SSM. The Company once again performed an interim goodwill impairment test and as a result, recorded an additional $13,051 goodwill impairment charge. At April 28, 2007, all goodwill originally recorded for the SSM business unit has been written off as a result of the impairment charges noted above. See Note 3.

NOTE 6—PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment consist of the following:

	April 28, 2007	April 29, 2006
Land	$ 502	$ 502
Projects in progress	3,976	8,021
Buildings and leasehold improvements	33,182	33,096
Furniture, fixtures and other	81,541	64,305
Machinery and warehouse equipment	44,371	41,892
Total property, plant and equipment	163,572	147,816
Less: Accumulated depreciation	(86,227)	(71,042)
Net property, plant and equipment	$ 77,345	$ 76,774

Depreciation expense related to continuing operations for fiscal years 2007, 2006 and 2005 was $15,627, $15,360 and $13,572, respectively.

NOTE 7—DEBT

Long-Term Debt

Long-term debt consists of the following:

	April 28, 2007	April 29, 2006
Amended and Restated Credit Agreement, maturing in 2011	$ 77,500	$ 267,400
3.75% Convertible Subordinated Notes due 2023	133,000	133,000
3.75% Convertible Subordinated Notes due 2026	200,000	-
Sale-leaseback obligations, effective rate of 8.97%, expiring in 2020	16,154	16,663
Capital lease obligations	75	144
Total debt	426,729	417,207
Less: Current maturities	(133,590)	(133,578)
Total long-term debt	$ 293,139	$ 283,629

On February 1, 2006, the Company entered into an Amended and Restated Credit Agreement which replaced the existing credit facility and the $100,000 term loan used as partial financing for the Delta acquisition. The Amended and Restated Credit Agreement matures on February 1, 2011 and provides for a $350,000 revolving loan and an available $100,000 incremental term loan. Interest accrues at a rate of, at the Company's option, either a Eurodollar rate plus an applicable margin of up to 1.75%, or the lender's base rate plus an applicable margin of up to 0.50%. The Company also pays a commitment fee on the revolving loan of up to 0.375% on unborrowed funds. The Amended and Restated Credit Agreement is secured by substantially all of the assets of the Company and contains certain financial covenants, including a consolidated total and senior leverage ratio, a consolidated fixed charges coverage ratio and a limitation on consolidated capital expenditures. The Company was in compliance with these covenants at April 28, 2007. The effective interest rate under the credit facility for fiscal 2007 was 7.17%, which includes amortization of the loan origination fees of $309 and commitment fees on unborrowed funds of $492. The effective interest rate under the credit facility for fiscal 2006 was 6.78%, which includes amortization of the loan origination fees of $658 and commitment fees on unborrowed funds of $464. As of April 28, 2007 and April 29, 2006, $77,500 and $267,400, respectively, were outstanding on the revolving loan.

During 2003, the Company sold an aggregate principal amount of $133,000 of convertible subordinated notes due in 2023. The Company used the total net proceeds from the offering of $128,999 to repay a portion of the debt outstanding under the Company's credit facility. The notes carry an annual interest rate of 3.75% until August 1, 2010, at which time the notes will cease bearing interest and the original principal amount of each note will commence increasing daily by the annual rate of 3.75%. Depending on the market price of the notes, the Company will make additional payments of interest commencing

August 1, 2008. The notes became convertible into shares of the Company's common stock at an initial conversion price of $40.00 per share during fiscal 2006 and are recorded as a current liability. Holders of the notes may surrender the notes for conversion at any time from October 1, 2005 until July 31, 2023. Holders that exercise their right to convert the notes will receive up to the accreted principal amount in cash, with the balance of the conversion obligation, if any, to be satisfied in shares of Company common stock or cash, at the Company's discretion. No notes have been converted into cash or shares of common stock as of April 28, 2007. The notes can be redeemed at the option of the Company no earlier than August 7, 2008.

On November 22, 2006, the Company sold $200,000 of convertible subordinated debentures due 2026. The debentures are unsecured, subordinated obligations of the Company, pay interest at 3.75% per annum on each May 30th and November 30th, and are convertible upon satisfaction of certain conditions. In connection with any such conversion, the Company will deliver cash equal to the lesser of the aggregate principal amount of debentures to be converted or the Company's total conversion obligation, and will deliver, at its option, cash or shares of its common stock in respect of the remainder, if any, of its conversion obligation. The initial conversion rate is .0194574 shares per $1 principal amount of debentures, which represents an initial conversion price of approximately $51.39 per share. The debentures are redeemable at the Company's option on or after November 30, 2011. On November 30, 2011, 2016 and 2021 and upon the occurrence of certain circumstances, holders will have the right to require the Company to repurchase all or some of the debentures.

The Company entered into two sale-leaseback transactions during fiscal 2001 which are accounted for as financings due to a technical default provision within the leases which could allow, under remote circumstances, for continuing ownership involvement by the Company in the two properties.

During 2001, the Company sold an aggregate principal amount of $149,500 of 6.0% convertible subordinated notes that were due in 2008. During 2004, the Company called the notes for redemption. Prior to redemption, certain holders of the notes exercised their right to convert $114,657 in aggregate principal amount of the notes into 3,551 shares of the Company's common stock. The remaining $34,843 in aggregate principal amount of these notes was redeemed for the contractual redemption price of $36,038. The Company recognized pre-tax expense of $1,839 in fiscal 2005 related to the write-off of deferred financing costs of $644 and the premium upon redemption of the notes of $1,195. An additional $2,117 of unamortized deferred financing fees was charged to capital paid-in excess of par value related to this conversion.

Maturities of Long-Term Debt

Maturities of long-term debt, including capital lease obligations, for subsequent fiscal years, are as follows:

2008	133,590
2009	629
2010	679
2011	78,273
2012	895
Thereafter	212,663
Total maturities of long-term debt	$ 426,729

NOTE 8—SECURITIZATION OF ACCOUNTS RECEIVABLE

The Company and certain of its U.S. subsidiaries entered into an agreement (the "Receivables Facility") in November 2000 with a financial institution whereby it sells on a continuous basis an undivided interest in all eligible trade accounts receivable. Pursuant to the Receivables Facility, the Company formed New School, Inc. ("NSI"), a wholly-owned, special purpose, bankruptcy-remote subsidiary. As such, the assets of NSI will be available first and foremost to satisfy the claims of the creditors of NSI. NSI was formed for the sole purpose of buying and selling receivables generated by the Company and certain subsidiaries of the Company. NSI does not meet the conditions of a qualifying Special Purpose Entity and therefore the results of NSI have been included in the Company's consolidated results for financial reporting purposes. Under the Receivables Facility, the Company and certain

subsidiaries transfer without recourse all their accounts receivables to NSI. NSI, in turn, has sold and, subject to certain conditions, may from time to time sell an undivided interest in these receivables. The Company receives a fee from the financial institution for billing and collection functions, which remain the responsibility of the Company that approximates fair value. The facility has been amended to extend its expiration to January 31, 2008 and it may be extended further with the financial institution's consent. In addition, the facility was amended to permit advances up to $175,000 from July 1 through November 30 of each year, and advances up to $75,000 from December 1 through June 30 of each year. The Company's retained interests in the receivables sold are recorded at fair value, which approximates cost, due to the short-term nature of the receivables sold.

This two-step transaction is accounted for as a sale of receivables under the provision of SFAS No. 140, "Accounting for Transfers and Servicing of Financial Assets and Extinguishment of Liabilities." At April 28, 2007 and April 29, 2006, respectively, $50,000 was advanced under the accounts receivable securitization and accordingly, that amount of accounts receivable has been removed from our consolidated balance sheets. Costs associated with the sale of receivables, primarily related to the discount and loss on sale, were $6,028, $3,592 and $2,070 and are included in other expenses in the consolidated statement of operations for fiscal years 2007, 2006 and 2005, respectively. Supplemental information related to the accounts receivable securitization transactions is provided below. Proceeds under accounts receivable securitization and collections as servicer of receivables sold have been netted in the accompanying consolidated statements of cash flows under the caption, "Change in amounts sold under receivables securitization, net."

	Fiscal 2007 (52 weeks)	Fiscal 2006 (52 weeks)	Fiscal 2005 (53 weeks)
Proceeds under accounts receivable securitization	$ 614,033	$ 492,337	$ 459,011
Collections as servicer of receivables sold	(614,033)	(489,537)	(461,811)
Retained interest in accounts receivable at end of period	$ 67,139	$ 61,511	$ 61,383
Cash flows from retained interests	448,500	518,452	538,557

NOTE 9—INCOME TAXES

The provision for income taxes consists of:

	Fiscal 2007 (52 weeks)	Fiscal 2006 (52 weeks)	Fiscal 2005 (53 weeks)
Current income tax expense from continuing operations:			
Federal	$ 13,049	$ 3,239	$ 12,664
State	1,988	2,261	2,776
Foreign	2,339	2,483	1,680
Total	17,376	7,983	17,120
Deferred income tax expense from continuing operations	9,092	4,598	10,282
Total provision for income taxes from continuing operations	26,468	12,581	27,402
Current income tax expense (benefit) from discontinued operations	(2,536)	(2,900)	(1,436)
Deferred income tax expense (benefit) from discontinued operations	(10,722)	(8,485)	1,357
Total provision for (benefit from) income taxes from discontinued operations	(13,258)	(11,385)	(79)
Total provision for income taxes	$ 13,210	$ 1,196	$ 27,323

Deferred taxes are comprised of the following:

	April 28, 2007	April 29, 2006
Current deferred tax assets:		
Inventory	$ 6,224	$ 4,152
Allowance for doubtful accounts	2,155	1,653
Accrued liabilities	1,655	375
Accrued restructuring	167	917
Total current deferred tax assets	10,201	7,097
Long-term deferred tax assets (liabilities):		
Net operating loss carryforward	2,701	2,898
Property and equipment	(10,665)	(10,031)
Accrued liabilities	(7,388)	(5,431)
Intangible assets	(34,749)	(36,063)
Total long-term deferred tax liabilities	(50,101)	(48,627)
Net deferred tax liablities	$ (39,900)	$ (41,530)

At April 28, 2007, the Company has state net operating losses of approximately $64,152, which expire during fiscal years 2008 – 2026. The Company believes that the realization of the deferred tax assets is more likely than not, based on the expectation that the Company will generate the necessary taxable income in future periods and, accordingly, no valuation reserve has been provided. In fiscal 2007, fiscal 2006 and fiscal 2005, the Company had not recorded U.S. tax provisions of $980, $1,026 and $895 relating to $2,799, $3,445 and $2,558 of unremitted earnings from foreign investments, respectively, as these earnings are expected to be reinvested indefinitely.

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

	Fiscal 2007	Fiscal 2006	Fiscal 2005
	(52 weeks)	(52 weeks)	(53 weeks)
U.S. federal statutory rate	35.0%	35.0%	35.0%
State income taxes, net of federal income tax benefit	3.2%	3.6%	3.4%
Foreign income tax	1.0%	1.8%	0.2%
Stock-based compensation	0.7%	-	-
Meals and entertainment, inventory donations and other	0.4%	0.4%	0.3%
Effective income tax rate	40.3%	40.8%	38.9%

NOTE 10—OPERATING LEASE COMMITMENTS

The Company leases various types of warehouse and office facilities and equipment, under noncancelable lease agreements which expire at various dates. Future minimum lease payments under noncancelable operating leases for the Company's fiscal years are as follows:

2008	9,070
2009	7,901
2010	6,986
2011	5,698
2012	4,367
Thereafter	35,354
Total minimum lease payments	$ 69,376

Rent expense related to continuing operations for fiscal 2007, 2006 and 2005, was $9,995, $11,478 and $11,206, respectively.

NOTE 11—EMPLOYEE BENEFIT PLANS

The Company sponsors the School Specialty, Inc. 401(k) Plan (the "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 virtually all full-time employees are eligible to participate in the 401(k) Plan after 90 days of service. In fiscal 2007, 2006 and 2005, the Company's matching contribution expense was $2,611, $2,727 and $2,132, respectively.

NOTE 12—SHAREHOLDERS' EQUITY

Share Repurchase Program

On June 15, 2006 the Company's Board of Directors approved a share repurchase program, which allowed the Company to purchase up to $50,000 of the Company's outstanding common stock. In November 2006, the Company's Board of Directors authorized an additional $26,508 repurchase, bringing the total authorization to $76,508. During fiscal 2007, the Company repurchased a total of 2,126,121 shares, substantially completing the available purchases under authorizations at April 28, 2007. Common stock acquired through the share repurchase program is available for general corporate purposes and is reflected as Treasury Stock in the accompanying consolidated balance sheets.

Earnings Per Share ("EPS")

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 to issue common stock were exercised. The following information presents the Company's computations of basic and diluted EPS

for the periods presented in the consolidated statements of operations:

	Income (Numerator)	Shares (Denominator)	Per Share Amount
Fiscal 2007:			
Basic EPS	$ 18,046	21,873	$ 0.83
Effect of dilutive employee stock options	-	672	
Diluted EPS	$ 18,046	22,545	$ 0.80
Fiscal 2006:			
Basic EPS	$ 61	22,898	$ 0.00
Effect of dilutive employee stock options	-	841	
Diluted EPS	$ 61	23,739	$ 0.00
Fiscal 2005:			
Basic EPS	$ 43,001	21,612	$ 1.99
Effect of dilutive employee stock options	-	826	
Effect of dilutive 6.0% convertible debt	1,891	1,472	
Diluted EPS	$ 44,892	23,910	$ 1.88

The Company had additional employee stock options outstanding of 904, 0, and 33 during fiscal 2007, 2006 and 2005, respectively, which were not included in the computation of diluted EPS because they were anti-dilutive. In fiscal 2005, the effect of convertible debt on the Company's diluted EPS relates to the Company's 6% convertible subordinated notes which were redeemed and/or converted during fiscal 2005. Because the Company is required to satisfy in cash the portion of its conversion obligation equal to the accreted principal amount, the 3.75% convertible subordinated notes did not have a material impact on the Company's diluted EPS.

NOTE 13—SHARE-BASED COMPENSATION EXPENSE

Employee Stock Plans

The Company has two stock-based employee compensation plans. On June 10, 1998, the Company's Board of Directors approved the School Specialty, Inc. 1998 Stock Incentive Plan (the "1998 Plan") and on August 27, 2002 the Company's Board of Directors approved the School Specialty, Inc. 2002 Stock Incentive Plan (the "2002 Plan"). Both plans have been approved by the Company's shareholders. The purpose of the 1998 Plan and the 2002 Plan is to provide directors, officers, key employees and consultants with additional incentives by increasing their ownership interests in the Company. Under the 1998 Plan, the maximum number of options available for grant is equal to 20% of the Company's outstanding common stock. Under the 2002 Plan, the maximum number of options available for grant is 1,500 shares.

A summary of option transactions for fiscal 2005, fiscal 2006 and fiscal 2007 follows:

	Options Outstanding		Options Exercisable	
	Options	Weighted-Average Exercise Price	Options	Weighted-Average Exercise Price
Balance at April 24, 2004	2,638	$ 20.08	1,809	$ 16.87
Granted	305	36.35		
Exercised	(230)	23.33		
Canceled	(85)	29.34		
Balance at April 30, 2005	2,628	$ 21.38	1,886	$ 17.55
Granted	477	36.87		
Exercised	(111)	25.89		
Canceled	(112)	33.35		
Balance at April 29, 2006	2,882	$ 23.29	2,054	$ 18.67
Granted	560	36.97		
Exercised	(348)	22.39		
Canceled	(103)	33.17		
Balance at April 28, 2007	2,991	$ 25.62	1,975	$ 20.00

The following tables detail supplemental information regarding stock options outstanding at April 28, 2007:

	Weighted Average Remaining Contractual Term	Aggregate Instrinsic Value
Options outstanding	4.86 years	$ 26,904
Options vested and expected to vest	4.70 years	26,879
Options exercisable	2.79 years	26,589

	Options Outstanding			Options Exercisable	
Range of Exercise Prices	Options	Weighted-Average Life (Years)	Weighted-Average Exercise Price	Options	Weighted-Average Exercise Price
$15.00 - $16.06	1,268	1.23	$ 15.48	1,268	$ 15.48
$17.00 - $24.10	319	3.63	20.92	319	20.92
$27.20 - $31.51	222	7.23	29.07	106	27.76
$34.00 - $36.82	762	8.32	36.22	235	35.84
$37.51 - $59.84	420	9.24	38.73	47	38.77
	2,991	4.86	$ 25.62	1,975	$ 20.00

Options granted are generally exercisable beginning one year from the date of grant in cumulative yearly amounts of twenty-five percent of the shares granted 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, twenty percent after the first year, fifty percent (cumulative)

after the second year and one-hundred percent (cumulative) after the third year. The Company has historically issued new shares of common stock to settle shares due upon option exercise. For fiscal 2007, approximately 348 new shares were issued upon the exercise of stock options.

The Company adopted SFAS No. 123(R) using the modified prospective application transition method effective with the beginning of fiscal 2007. Prior to the adoption of SFAS No. 123(R), the Company accounted for share-based compensation in accordance with APB 25. Under APB 25, no employee or director share-based compensation expense was reflected in the consolidated statements of operations prior to fiscal 2007.

During the fiscal year ended April 28, 2007, the Company recognized $4,507 in share-based compensation expense which is reflected in selling, general and administrative expenses in the fiscal 2007 statement of operations. The fiscal 2007 income tax benefit recognized related to share-based compensation expense was $1,233. As a result of adopting SFAS No. 123(R), net income for the fiscal year ended 2007 was $3,274 lower, and both basic and diluted EPS were $0.15 lower. The Company recognizes share-based compensation expense on a straight-line basis over the vesting period of each award. As of April 28, 2007, total unrecognized share-based compensation expense was $12,355, net of estimated forfeitures, which the Company expects to recognize over a weighted average period of approximately 2.8 years.

Prior Year Pro Forma Expense

The following table illustrates the effect on net income and earnings per share if the fair value-based method provided by SFAS No. 123 had been applied for all outstanding and unvested awards prior to the adoption of SFAS No. 123(R):

	Fiscal 2006 (52 weeks)	Fiscal 2005 (53 weeks)
Net income, as reported	$ 61	$ 43,001
Deduct: Total stock-based employee compensation expense determined under fair value based method for all awards, net of related tax effects	(2,860)	(3,008)
Pro forma net (loss) income	$ (2,799)	$ 39,993
EPS:		
As reported:		
Basic	$ 0.00	$ 1.99
Diluted	$ 0.00	$ 1.88
Pro forma:		
Basic	$ (0.12)	$ 1.85
Diluted	$ (0.12)	$ 1.75

The weighted average fair value of options granted during fiscal 2007, 2006 and 2005, was $14.43, $15.70 and $17.88, respectively. The fair value of options is estimated on the date of grant using the Black-Scholes single option pricing model with the following weighted average assumptions:

	Fiscal 2007	Fiscal 2006	Fiscal 2005
Average-risk free interest rate	4.68%	4.40%	3.90%
Expected dividend yield	0.00%	0.00%	0.00%
Expected volatility	32.84%	38.30%	48.73%
Expected term	5.5 years	5.5 years	5.5 years

	Fiscal 2007	Fiscal 2006	Fiscal 2005
Total intrinsic value of stock options exercised	$ 5,057	$ 1,493	$ 3,253
Cash received from stock option exercises	7,798	2,871	5,375
Income tax benefit from the exercise of stock options	1,962	579	1,262

NOTE 14—SEGMENT INFORMATION

The Company determines its operating segments based on the information utilized by the chief operating decision maker, the Company's Chief Executive Officer, to allocate resources and assess performance. Based on this information, the Company has determined that it operates in two operating segments, Specialty and Essentials, which also constitute its reportable segments. The Company operates principally in the United States, with limited Specialty segment operations in Canada. Products supplied within the Specialty segment primarily target specific educational disciplines, such as art, industrial arts, physical education, sciences, and early childhood. This segment also supplies student academic planners, videos, DVDs, published educational materials and sound presentation equipment. Products supplied within the Essentials segment include consumables (consisting of classroom supplies, instructional materials, educational games, art supplies and school forms), school furniture and indoor and outdoor equipment. The accounting policies of the segments are the same as those described in Summary of Significant Accounting Policies. Intercompany eliminations represent intercompany sales between our Specialty and Essential segments, and the resulting profit recognized on such intercompany sales.

The following table presents segment information:

	Fiscal 2007 (52 weeks)	Fiscal 2006 (52 weeks)	Fiscal 2005 (53 weeks)
Revenues:			
Specialty	$ 591,866	$ 527,201	$ 502,178
Essentials	471,141	468,757	486,238
Corporate	720	686	106
Intercompany eliminations	(20,575)	(19,342)	(18,087)
Total	$1,043,152	$ 977,302	$ 970,435
Operating income (loss) and income before taxes:			
Specialty	$ 83,566	$ 54,075	$ 72,694
Essentials	46,726	45,954	45,003
Corporate	(34,259)	(44,035)	(27,486)
Intercompany eliminations	(2,235)	(1,819)	(2,846)
Operating income	93,798	54,175	87,365
Interest expense and other	28,105	23,346	16,836
Income before taxes	$ 65,693	$ 30,829	$ 70,529

	April 28, 2007	April 29, 2006
Identifiable assets:		
Specialty	$ 782,625	$ 777,660
Essentials	275,300	261,133
Corporate assets (1)	37,245	41,579
Total assets of continuing segments	1,095,170	1,080,372
Discontinued operations	15,709	50,003
Total	$1,110,879	$1,130,375

	Fiscal 2007 (52 weeks)	Fiscal 2006 (52 weeks)	Fiscal 2005 (53 weeks)
Depreciation and amortization of intangible assets and development costs:			
Specialty	$ 18,500	$ 17,255	$ 12,741
Essentials	3,382	2,928	3,377
Corporate	6,769	5,719	4,783
Total continuing segments	28,651	25,902	20,901
Discontinued operations	3,429	2,090	1,636
Total	$ 32,080	$ 27,992	$ 22,537
Expenditures for property, plant and equipment, intangible and other assets and development costs:			
Specialty	$ 9,019	$ 16,161	$ 7,661
Essentials	75	719	412
Corporate	16,974	10,770	19,802
Total continuing segments	26,068	27,650	27,875
Discontinued operations	1,987	2,756	3,046
Total	$ 28,055	$ 30,406	$ 30,921

(1) Corporate assets have been reduced by $50,000 and $50,000 at April 28, 2007 and April 29, 2006, respectively, to reflect the removal of accounts receivable from the balance sheet in accordance with the Accounts Receivable Securitization transactions described in Note 8.

NOTE 15—COMMITMENTS AND CONTINGENCIES

Various claims and proceedings arising in the normal course of business are pending against the Company. The results of these matters are not expected to have a material adverse effect on the Company's consolidated financial position, results of operations or cash flows.

SCHOOL SPECIALTY, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE FISCAL YEARS ENDED APRIL 28, 2007, APRIL 29, 2006 AND APRIL 30, 2005
(In Thousands, Except Per Share Amounts)

NOTE 16—QUARTERLY FINANCIAL DATA (UNAUDITED)

The following presents certain unaudited quarterly financial data for fiscal 2007 and fiscal 2006:

	Fiscal 2007 (1)				
	First	Second	Third	Fourth	Total
	(13 weeks)	(13 weeks)	(13 weeks)	(13 weeks)	(52 weeks)
Revenues	$ 377,071	$ 371,225	$ 128,816	$ 166,040	$ 1,043,152
Gross profit	167,911	154,821	50,856	72,049	445,637
Operating income (loss)	69,072	56,931	(20,725)	(11,480)	93,798
Earnings (loss) from continuing operations, net of income taxes	37,745	29,644	(16,906)	(11,258)	39,225
Earnings (loss) from discontinued operations, net of income taxes	(878)	(442)	(1,917)	(17,942)	(21,179)
Net income (loss)	36,867	29,202	(18,823)	(29,200)	18,046
Basic earnings per share of common stock:					
Earnings (loss) from continuing operations	$ 1.65	$ 1.33	$ (0.79)	$ (0.53)	$ 1.79
Earnings (loss) from discontinued operations	(0.04)	(0.02)	(0.09)	(0.85)	(0.96)
Total	$ 1.61	$ 1.31	$ (0.88)	$ (1.38)	$ 0.83
Diluted earnings per share of common stock:					
Earnings (loss) from continuing operations	$ 1.60	$ 1.29	$ (0.79)	$ (0.53)	$ 1.74
Earnings (loss) from discontinued operations	(0.03)	(0.01)	(0.09)	(0.85)	(0.94)
Total	$ 1.57	$ 1.28	$ (0.88)	$ (1.38)	$ 0.80

	Fiscal 2006 (1)				
	First	Second	Third	Fourth	Total
	(13 weeks)	(13 weeks)	(13 weeks)	(13 weeks)	(52 weeks)
Revenues	$ 347,335	$ 331,733	$ 126,863	$ 171,371	$ 977,302
Gross profit	150,331	137,897	49,458	70,993	408,679
Operating income (loss)	59,431	37,483	(28,617)	(14,122)	54,175
Earnings (loss) from continuing operations, net of income taxes	34,494	19,194	(21,789)	(13,651)	18,248
Earnings (loss) from discontinued operations, net of income taxes	102	1,374	(735)	(18,928)	(18,187)
Net income (loss)	34,596	20,568	(22,524)	(32,579)	61
Basic earnings per share of common stock:					
Earnings (loss) from continuing operations	$ 1.50	$ 0.84	$ (0.95)	$ (0.59)	$ 0.80
Earnings (loss) from discontinued operations	0.01	0.06	(0.03)	(0.83)	(0.80)
Total	$ 1.51	$ 0.90	$ (0.98)	$ (1.42)	$ 0.00
Diluted earnings per share of common stock:					
Earnings (loss) from continuing operations	$ 1.43	$ 0.79	$ (0.95)	$ (0.59)	$ 0.77
Earnings (loss) from discontinued operations	0.01	0.06	(0.03)	(0.83)	(0.77)
Total	$ 1.44	$ 0.85	$ (0.98)	$ (1.42)	$ 0.00

(1) On August 31, 2005, the Company acquired Delta, a seasonal business that generated operating and net losses during the third and fourth quarters of fiscal 2006. Fiscal 2007 includes the results of Delta for all quarters presented.

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.

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, 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.

NOTE 17—MERGER TRANSACTION

On May 31, 2005, the Company announced that it had entered into an Agreement and Plan of Merger, as amended, dated as of May 31, 2005 (the "Merger Agreement"), with LBW Holdings, Inc. and LBW Acquisition, Inc. On October 25, 2005, a Termination and Release Agreement was entered into by and among the Company, LBW Holdings, Inc. and LBW Acquisition, Inc. pursuant to which the Merger Agreement was terminated by mutual agreement and the parties released each other from certain claims. No termination fees were payable by the Company or by LBW Holdings, Inc., and each party was responsible for its own merger-related expenses.

During fiscal 2006, the Company incurred $5,202 of costs related to the terminated merger transaction consisting of accounting, legal and other transaction-related costs, including costs related to financial and legal advisors to the special committee of our Board of Directors. These costs have been included in the statement of operations for fiscal 2006.

Following the Company's announcement of the Merger Agreement on May 31, 2005, the Company was named as a defendant in three putative shareholder class actions. The complaints alleged that the Company and its directors breached fiduciary duties to the Company's shareholders by negotiating and agreeing to the transaction at a price that the plaintiffs claimed to be inadequate. On January 17, 2006, the three putative shareholder class actions were dismissed.

NOTE 18—SUBSEQUENT EVENTS

On June 5, 2007 School Specialty, Inc. announced that its Board of Directors approved a new share repurchase program which gives School Specialty the ability to purchase up to $45,000 of its issued and outstanding common stock. Purchases under this program may be made from time to time in open market or privately negotiated transactions. Common stock acquired through the repurchase program will be available for general corporate purposes.

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

Not applicable

Item 9A. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

Based on an evaluation as of the end of the period covered by this annual report, the Company's principal executive officer and principal financial officer have concluded that the Company's disclosure controls and procedures (as defined in Rule 13a-15(e) under the Securities Exchange Act of 1934 (the "Exchange Act")) are effective for the purposes set forth in the definition of the Exchange Act rules.

Management's Report on Internal Control Over Financial Reporting

Management is responsible for establishing and maintaining adequate internal control over financial reporting. As such term is defined in Exchange Act Rule 13a-15(f), internal control over financial reporting is a process designed by, or under the supervision of, the principal executive and principal financial officers, or persons performing similar functions, and effected by the board of directors, management and other personnel, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with accounting principles generally accepted in the United States. Internal control over financial reporting includes those policies and procedures that:

(1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of assets of the Company;

(2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of the financial statements in accordance with accounting principles generally accepted in the United States, and that receipts and expenditures of the Company are being made only in accordance with authorizations of management and the directors of the Company; and

(3) provide reasonable assurance regarding prevention of unauthorized acquisition, use, or disposition of the Company's assets that could have a material effect on the financial statements.

Management conducted an evaluation of the effectiveness of the Company's internal control over financial reporting based on the criteria in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on this evaluation under the criteria in *Internal Control—Integrated Framework*, management concluded that internal control over financial reporting was effective as of April 28, 2007.

Management's assessment of the effectiveness of internal control over financial reporting as of April 28, 2007 has been audited by Deloitte & Touche LLP, an independent registered public accounting firm, as stated in their report dated June 25, 2007, which is included herein.

Report of Independent Registered Public Accounting Firm

To the Board of Directors and Shareholders of
School Specialty, Inc.
Greenville, Wisconsin

We have audited management's assessment, included in the accompanying Management's Report on Internal Control Over Financial Reporting, that School Specialty, Inc., and subsidiaries (the "Company") maintained effective internal control over financial reporting as of April 28, 2007, based on criteria established in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express an opinion on management's assessment and an opinion on the effectiveness of the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, evaluating management's assessment, testing and evaluating the design and operating effectiveness of internal control, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinions.

A company's internal control over financial reporting is a process designed by, or under the supervision of, the company's principal executive and principal financial officers, or persons performing similar functions, and effected by the company's board of directors, management, and other personnel to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in

accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of the inherent limitations of internal control over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may not be prevented or detected on a timely basis. Also, projections of any evaluation of the effectiveness of the internal control over financial reporting to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, management's assessment that the Company maintained effective internal control over financial reporting as of April 28, 2007, is fairly stated, in all material respects, based on the criteria established in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of April 28, 2007, based on the criteria established in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated financial statements and financial statement schedule as of and for the year ended April 28, 2007 of the Company and our report dated June 25, 2007 expressed an unqualified opinion on those financial statements, financial statement schedule, and included explanatory paragraph relating to the Company's adoption of Statement of Financial Accounting Standard No. 123®, *Share Based Payment*.

/s/ DELOITTE & TOUCHE LLP

Milwaukee, Wisconsin
June 25, 2007

Changes in Internal Controls

During fiscal 2007, the Company began implementation of a common enterprise resource planning ("ERP") platform. Over a three year period, this platform will replace most of our existing systems. As a result, the Company's entities will be more closely aligned with standardized processes and internal controls at the completion of the implementation. As of April 28, 2007, three of our business units within the Specialty segment had been converted to the new ERP system and it is estimated that a total of 80% of the Company's businesses will be converted by the end of fiscal 2008.

Item 9B. <u>Other Information</u>

Not applicable

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 Shareholders to be held on August 29, 2007, under the caption “Proposal One: 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 Shareholders to be held on August 29, 2007, under the caption “Section 16(a) Beneficial Ownership Reporting Compliance,” which information is incorporated by reference herein.

(d) We have adopted a Code of Ethics that applies to our directors, officers and employees, including the principal executive officer, principal financial officer, principal accounting officer and controller. The Code of Ethics is posted on our internet website at www.schoolspecialty.com. We intend to satisfy the disclosure requirement under Item 10 of Form 8-K by posting such information on our internet website.

(e) The Company has a separately-designated standing Audit Committee of its Board of Directors. The Audit Committee is responsible for oversight of the Company’s accounting and financial reporting processes and the audit of the Company’s financial statements. The Audit Committee currently consists of three members, including Mr. Trucksess (Chairman), Mr. Lay and Mr. Emma, each of whom is “independent” under the listing standards of the Nasdaq National Market. Mr. Trucksess, Mr. Lay and Mr. Emma have each been deemed by the Board of Directors to be an “audit committee financial expert” for purposes of the SEC’s rules. The Audit Committee has adopted, and the Board of Directors has approved, a charter for the Audit Committee. The Audit Committee held four meetings in fiscal 2007.

Item 11. Executive Compensation

The information required by this Item is set forth in our Proxy statement for the Annual Meeting of Shareholders to be held on August 29, 2007, under the captions “Executive Compensation Discussion and Analysis,” and “Compensation Committee Interlocks and Insider Participation,” which information is incorporated by reference herein.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Shareholder Matters

The information required by this Item is set forth in our Proxy statement for the Annual Meeting of Shareholders to be held on August 29, 2007, under the captions “Security Ownership of Management and Certain Beneficial Owners” and “Executive Compensation Discussion and Analysis,” which information is incorporated by reference herein.

Item 13. Certain Relationships and Related Transactions, and Director Independence

The information required by this Item is set forth in our Proxy statement for the Annual Meeting of Shareholders to be held on August 29, 2007, under the captions “Related Party Transactions” and “Corporate Governance,” which information is incorporated by reference herein.

Item 14. Principal Accountant Fees and Services

The information required by this Item is set forth in our Proxy Statement for the Annual Meeting of Shareholders to be held on August 29, 2007, under the caption “Audit Committee Report,” which information is incorporated by reference herein.

PART IV

Item 15. <u>Exhibits and Financial Statement Schedules</u>

(a)(1) <u>Financial Statements (See Part II, Item 8)</u>.

Consolidated Financial Statements

Report of Independent Registered Public Accounting Firm

Consolidated Balance Sheets as of April 28, 2007 and April 29, 2006

Consolidated Statements of Operations for the fiscal years ended April 28, 2007, April 29, 2006 and April 30, 2005

Consolidated Statements of Shareholders' Equity for the fiscal years ended April 28, 2007, April 29, 2006 and April 30, 2005

Consolidated Statements of Cash Flows for the fiscal years ended April 28, 2007, April 29, 2006 and April 30, 2005

Notes to Consolidated Financial Statements

(a)(2) <u>Financial Statement Schedule (See Exhibit 99.1)</u>.

Schedule for the fiscal years ended April 28, 2007, April 29, 2006 and April 30, 2005: Schedule II – Valuation and Qualifying Accounts.

(a)(3) <u>Exhibits</u>.

See (b) below

(b) <u>Exhibits</u>.

See the Exhibit Index, which is incorporated by reference herein

(c) <u>Financial Statements Excluded from Annual Report to Shareholders</u>.

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, on June 25, 2007.

SCHOOL SPECIALTY, INC.

By: /s/ David J. Vander Zanden
David J. Vander Zanden
Chief Executive Officer
(Principal Executive Officer)

By: /s/ David G. Gomach
David G. Gomach
Executive Vice President and Chief Financial Officer
(Principal Financial and Accounting Officer)

Each person whose signature appears below hereby constitutes and appoints David J. Vander Zanden and David G. Gomach, 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/ David J. Vander Zanden David J. Vander Zanden	Chief Executive Officer and Director (Principal Executive Officer)	June 25, 2007
/s/ David G. Gomach David G. Gomach	Executive Vice President and Chief Financial Officer (Principal Financial and Accounting Officer)	June 25, 2007
/s/ Terry L. Lay Terry L. Lay	Chairman of the Board	June 25, 2007
/s/ Jonathan J. Ledecky Jonathan J. Ledecky	Director	June 25, 2007
/s/ Edward C. Emma Edward C. Emma	Director	June 25, 2007
/s/ Herbert A. Trucksess Herbert A. Trucksess	Director	June 25, 2007
/s/ Jacqueline F. Woods Jacqueline F. Woods	Director	June 25, 2007