

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, DC 20549

FORM 10-Q/A

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d)  
OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE  
QUARTERLY PERIOD ENDED JULY 25, 1998.

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d)  
OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE  
TRANSITION PERIOD FROM \_\_\_\_\_ TO  
\_\_\_\_\_

Commission File Number: 000-24385

SCHOOL SPECIALTY, INC.  
(Exact Name of Registrant as Specified in its Charter)

Delaware  
(State or Other  
Jurisdiction of Incorporation)  
1000 North Bluemound Drive  
Appleton, Wisconsin  
(Address of Principal Executive Offices)

39-0971239  
(IRS Employer  
Identification No.)

54914  
(Zip Code)

(920) 734-2756  
(Registrant's Telephone Number, including Area Code)

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 the number of shares outstanding of each of  
the issuer's classes of common stock, as of the latest  
practicable date.

Class	Outstanding at August 31, 1998
----- Common Stock, \$0.001 par value	----- 14,572,784

EXPLANATORY NOTE

This Form 10-Q/A is being filed for the purpose of  
correcting the following inadvertent errors: (1) in  
the Consolidated Statements of Cash Flows, (a) for the  
three months ended July 25, 1998, the "Capital  
Contribution by U.S. Office Products" line item under  
the heading "Cash flows from financing activities" was  
corrected to read \$8,818, and the "Net cash from  
financing activities" line item under the same heading

was corrected to read \$34,073, and (b) for the three months ended July 26, 1997, the "Other" line item under the heading "Cash flows from investing activities" was corrected to read \$198, the "Net cash used in investing activities" line item under the same heading was corrected to read (\$67,129), and the "Advances from (payments to) U.S. Office Products" line item under the heading "Cash flows from financing activities" was corrected to read \$14,171. In addition, to the foregoing, Notes 6 and 7 of the Notes to Unaudited Consolidated Financial Statements have been revised to conform to the disclosure contained in the Company's most recent filing on Form 8-K.

SCHOOL SPECIALTY, INC.

INDEX TO FORM 10-Q

FOR THE QUARTERLY PERIOD ENDED JULY 25, 1998

PART I - FINANCIAL INFORMATION

	Page Number
ITEM 1. FINANCIAL STATEMENTS	
Consolidated Balance Sheets at July 25, 1998 (Unaudited) and April 25, 1998	1
Unaudited Consolidated Statements of Income for the Three Months Ended July 25, 1998 and July 26, 1997	2
Unaudited Consolidated Statements of Cash Flows for the Three Months Ended July 25, 1998 and July 26, 1997	3
Notes to Unaudited Consolidated Financial Statements	5

PART I - FINANCIAL INFORMATION

Item 1. Financial Statements

SCHOOL SPECIALTY, INC.  
CONSOLIDATED BALANCE SHEETS  
(In thousands)

	July 25, 1998 (unaudited)	April 25, 1998
ASSETS		
Current assets:		
Cash and cash equivalents	\$ -	\$ -
Accounts receivable, less allowance for doubtful accounts of \$754 and \$716, respectively	92,632	38,719
Inventories	56,092	49,306
Prepaid expenses and other current assets	12,435	13,504
Total current assets	161,159	101,529
Property and equipment, net	23,316	22,553
Intangible assets, net	112,450	99,613
Other assets	109	34
Total assets	\$297,034	\$223,729

LIABILITIES AND STOCKHOLDERS' EQUITY

Current liabilities:		
Short-term debt	\$ 244	\$ 11
Short-term payable to U.S. Office Products	-	20,277
Accounts payable	42,636	23,788
Accrued compensation	4,772	4,458
Other accrued liabilities	15,327	5,204
Total current liabilities	62,979	53,738
Long-term debt	287	315
Long-term payable to U.S. Office Products	-	62,699
Long-term debt to bank	77,600	-
Deferred income taxes	512	511
Total liabilities	141,378	117,263
Stockholders' equity:		
Common stock, \$0.001 par value per share, 151,000,000 shares authorized and 14,572,784 shares issued and outstanding	15	-
Capital paid in excess of par value	147,495	-
Divisional equity	-	104,883
Accumulated other comprehensive income	4	3
Retained earnings	8,142	1,580
Total stockholders' equity	155,656	106,466
Total liabilities and stockholders' equity	\$297,034	\$223,729

See accompanying notes to consolidated financial statements.

SCHOOL SPECIALTY, INC.  
CONSOLIDATED STATEMENTS OF INCOME  
(unaudited)

(In thousands, except per share amounts)

	For the Three Months Ended	
	July 25, 1998	July 26, 1997
Revenues	\$126,657	\$87,029
Cost of revenues	82,615	56,692
Gross profit	44,042	30,337
Selling, general and administrative expenses	29,642	18,465
Non-recurring charges	1,074	-
Operating income	13,326	11,872
Other income (expense):		
Interest expense	(1,177)	(1,315)
Interest income	4	-
Income before provision for income taxes	12,153	10,557
Provision for income taxes	5,590	4,753
Net income	\$ 6,563	\$ 5,804
Weighted average shares outstanding:		
Basic	14,728	11,809
Diluted	14,848	12,013
Net income per share:		
Basic	\$ 0.45	\$ 0.49
Diluted	\$ 0.44	\$ 0.48

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS  
(unaudited)  
(In thousands)

	For the Three Months Ended	
	July 25, 1998	July 26, 1997
Cash flows from operating activities:		
Net income	\$ 6,563	\$ 5,804
Adjustments to reconcile net income to net cash used in operating activities:		
Depreciation and amortization expense	1,428	818
Non-recurring charges	1,074	-
Change in current assets and liabilities (net of assets acquired and liabilities assumed in business combinations accounted for under the purchase method):		
Accounts receivable	(52,917)	(39,307)
Inventory	(3,405)	(1,156)
Prepaid expenses and other current assets	1,273	(1,642)
Accounts payable	18,967	10,201
Accrued liabilities	10,214	6,289
Net cash used in operating activities	(16,803)	(18,993)
Cash flows from investing activities:		
Cash paid in acquisitions, net of cash received	(16,895)	(63,740)
Additions to property and equipment	(902)	(3,587)
Other	527	198
Net cash used in investing activities	(17,270)	(67,129)
Cash flows from financing activities:		
Proceeds from (payments of) short-term debt, net	(20,277)	-
Advances from (payments to) U.S. Office Products	(62,699)	14,171
Capital contribution by U.S. Office Products	8,818	71,951
Proceeds from issuance of common stock	32,735	-
Proceeds from issuance of long-term debt	77,600	-
Capitalized loan fees	(2,104)	-
Net cash from financing activities	34,073	86,122
Net increase (decrease) in cash and cash equivalents	-	-
Cash and cash equivalents, beginning of period	-	-
Cash and cash equivalents, end of period	\$ -	\$ -
Supplemental disclosures of cash flow information:		
Interest paid	\$ 530	\$ -

See accompanying notes to consolidated financial statements.

SCHOOL SPECIALTY, INC.  
CONSOLIDATED STATEMENTS OF CASH FLOWS - (Continued)  
(unaudited)  
(In thousands)

The Company issued common stock and cash in connection with certain business combinations accounted for under the purchase method in the three months ended July 25, 1998 and July 26, 1997. The fair values of the assets and liabilities of the acquired companies at the dates of the acquisitions are presented as follows:

	For the Three Months Ended	
	July 25, 1998	July 26, 1997
Accounts receivable	\$ 996	\$ 9,427
Inventories	3,381	14,913
Prepaid expenses and other current assets	302	2,180
Property and equipment	596	3,368
Intangible assets	11,301	48,036
Other assets	520	210
Short-term debt	-	-
Accounts payable	(201)	(7,237)
Accrued liabilities	-	(3,591)
Long-term debt	-	-
Net assets acquired	\$16,895	\$67,306
Acquisitions were funded as follows:		
United States Office Products common stock	\$ -	\$ 3,566
Cash	16,895	63,740
Total	\$16,895	\$67,306

See accompanying notes to consolidated financial statements.

SCHOOL SPECIALTY, INC.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
(unaudited)  
(In thousands, except per share amounts)

NOTE 1\_BASIS OF PRESENTATION

The accompanying unaudited condensed financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information and with the instructions to Form 10-Q and Rule 10-01 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. The Balance Sheet at April 25, 1998 has been derived from the Company's audited financial statements for the fiscal year ended April 25, 1998. For further information, refer to the financial statements and footnotes thereto included in the Company's annual report on Form 10-K for the year ended April 25, 1998.

NOTE 2\_STOCKHOLDERS' EQUITY

Changes in stockholders' equity during the three months ended July 25, 1998 were as follows:

Stockholders' equity balance at April 25, 1998	\$106,466
Shares distributed in public offering	32,735
Contribution by U.S. Office Products	9,891
Cumulative translation adjustments	1
Net income	6,563

Stockholders' equity balance at July 25, 1998	\$155,656
-----------------------------------------------	-----------

On June 10, 1998, U.S. Office Products distributed to its shareholders one share of School Specialty common

stock for every 9 shares of U.S. Office Products common stock held by each respective shareholder. The share data reflected in the accompanying financial statements represents the historical share data for U.S. Office Products for the period or as of the date indicated, and retroactively adjusted to give effect to the one for nine distribution ratio and includes shares issued in the public offering during the three months ended July 25, 1998.

NOTE 3\_EARNINGS PER SHARE

In fiscal 1998, the Company adopted Statement of Financial Accounting Standards ("SFAS") No. 128, "Earnings Per Share." SFAS No. 128 simplifies the standards required under current accounting rules for computing earnings per share and replaces the presentation of primary earnings per share and fully diluted earnings per share with a presentation of basic earnings per share ("basic EPS") and diluted earnings per share ("diluted EPS").

The following information presents the Company's computations of basic and diluted EPS for the periods presented in the consolidated statement of income:

	Income (Numerator)	Shares (Denominator)	Per Share Amount
Three months ended July 25, 1998:			
Basic EPS	\$6,563	14,728	\$ 0.45
Effect of dilutive employee stock options	-	120	\$(0.01)
Diluted EPS	\$6,563	14,848	\$ 0.44
Three months ended July 26, 1997:			
Basic EPS	\$5,804	11,809	\$ 0.49
Effect of dilutive employee stock options	-	204	\$(0.01)
Diluted EPS	\$5,804	12,013	\$ 0.48

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

NOTE 4\_ACCOUNTING PRONOUNCEMENT

In June 1997, the Financial Accounting Standards Board issued SFAS No. 130, "Reporting Comprehensive Income." SFAS No. 130 establishes standards for the reporting and display of comprehensive income and its components (revenues, expenses, gains and losses) in a full set of general purpose financial statements. SFAS No. 130 is effective for fiscal years beginning after December 15, 1997. The Company's other comprehensive income for the period ended July 25, 1998 is \$1 and \$4, on a cumulative basis. The Company's comprehensive income is comprised solely of translation adjustments.

NOTE 5\_CREDIT FACILITY

On June 9, 1998, the Company entered into a secured \$250,000 revolving credit facility with NationsBank, N.A. as administrative agent. The credit facility will terminate five years from inception. Interest on

borrowings under the credit facility will accrue at a rate of, at the Company's option, either LIBOR plus 1.00% or the lender's base rate, plus a margin of 0% to .25% for up to the first 6 months under the agreement. Thereafter, interest will accrue at a rate of (i) LIBOR plus a range of .625% to 2.000%, or (ii) the lender's base rate plus a range of .125% to .250% (depending on the Company's leverage ratio of funded debt to EBITDA). Indebtedness will be secured by substantially all of the assets of the Company. The credit facility is subject to terms and conditions typical of facilities of such size and includes certain financial covenants. The Company borrowed under the credit facility to repay the U.S. Office Products' debt which it was obligated to repay as part of its spin-off from U.S. Office Products on June 10, 1998. The balance of the credit facility will be available for working capital, capital expenditures and acquisitions, subject to compliance with financial covenants. The amount outstanding as of July 25, 1998 under the credit facility was \$77,600.

NOTE 6 BUSINESS COMBINATIONS

During the fiscal period ended April 25, 1998, the Company completed 8 business combinations which were accounted for under the purchase method.

In the first quarter of fiscal 1999, the Company made a significant acquisition accounted for under the purchase method of accounting for an aggregate cash purchase price of \$16,895, resulting in goodwill of approximately \$11,000 which will be amortized over 40 years. The results of this acquisition have been included in the Company's results from its respective date of acquisition.

The following presents the unaudited pro forma results of operations of the Company for the quarters ending July 25, 1998 and July 26, 1997 and includes the Company's consolidated financial statements, which give retroactive effect to the acquisitions as if all such purchase acquisitions had been made at the beginning of fiscal 1998. The results presented below include certain pro forma adjustments to reflect the amortization of intangible assets, adjustments to interest expense, adjustments to depreciation, adjustments in executive compensation and the inclusion of a federal income tax provision on all earnings at an effective tax rate of 46% and 48% for the quarters ended July 25, 1998 and July 26, 1997, respectively:

	For the Quarter Ended	
	July 25, 1998	July 26, 1997
Revenues	\$129,037	\$131,956
Net income	6,825	7,639
Net income per share:		
Basic	\$ 0.46	\$ 0.65
Diluted	\$ 0.46	\$ 0.64

On March 30, 1998, the Company acquired certain assets of Education Access out of a Federal bankruptcy proceeding. Accordingly, revenues and net loss for

Education Access included in the above pro forma results were \$1,900 and (\$90), respectively, for the quarter ended July 25, 1998, compared with revenues and net income of \$9,700 and \$469, respectively, for the quarter ended July 26, 1997. In addition, the Company incurred a one-time non-recurring charge in the quarter ended July 25, 1998, consisting of compensation expense attributed to the U.S. Office Products stock option tender offer and the sale of shares of stock to certain executive management of the Company, net of underwriting discounts. The after tax charge included in net income for the quarter ended July 25, 1998 is \$642.

The July 26, 1997 net income per share does not give pro forma effect to the 2,375 shares issued in the Company's offering and the sale of shares to executive management on June 9, 1998.

The unaudited pro forma results of operations are prepared for companies for comparative purposes only and do not necessarily reflect the results that would have occurred had the acquisitions occurred at the beginning of fiscal 1998 or the results which may occur in the future.

NOTE 7 SUBSEQUENT EVENTS

Beckley Cardy Acquisition

Subsequent to July 25, 1998, the Company completed an acquisition of The National School Supply Company (otherwise known as Beckley-Cardy) that was accounted for under the purchase method of accounting. The aggregate consideration paid for this acquisition was approximately \$77,000 in cash plus assumed debt of approximately \$60,000, resulting in goodwill of approximately \$76,000 which will be amortized over 40 years. The timing of this acquisition reflects additional seasonal working capital borrowings of approximately \$13,000, which is included in the \$60,000 debt assumed. The results of this acquisition will be included in the Company's results from its respective date of acquisition.

The following presents the unaudited pro forma results of operations of the Company for the quarters ending July 25, 1998 and July 26, 1997 and includes the Company's consolidated financial statements, which give retroactive effect to the Beckley-Cardy acquisition as well as the acquisitions referred to in Note 6 above, as if all such purchase acquisitions had been made at the beginning of fiscal 1998. The results presented below include certain pro forma adjustments to reflect the amortization of intangible assets, adjustments to interest expense, adjustments in executive compensation and the inclusion of a federal income tax provision on all earnings at an effective tax rate of 49% and 56% for the quarters ended July 25, 1998 and July 26, 1997, respectively:

	For the Quarter Ended	
	July 25, 1998	July 26, 1997
Revenues	\$182,727	\$184,778

Net income	7,267	6,659
------------	-------	-------

Net income per share:

Basic	\$ 0.49	\$ 0.56
Diluted	\$ 0.49	\$ 0.55

On March 30, 1998, the Company acquired certain assets of Education Access out of a Federal bankruptcy proceeding. Accordingly, revenues and net loss for Education Access included in the above pro forma results were \$1,900 and (\$90), respectively, for the quarter ended July 25, 1998, compared with revenues and net income of \$9,700 and \$469, respectively, for the quarter ended July 26, 1997. In addition, the Company incurred a one-time non-recurring charge in the quarter ended July 25, 1998, consisting of compensation expense attributed to the U.S. Office Products stock option tender offer and the sale of shares of stock to certain executive management of the Company, net of underwriting discounts. The after tax charge included in net income for the quarter ended July 25, 1998 is \$642.

The July 26, 1997 net income per share does not give pro forma effect to the 2,375 shares issued in the Company's offering and the sale of shares to executive management on June 9, 1998.

The unaudited pro forma results of operations are prepared for companies for comparative purposes only and do not necessarily reflect the results that would have occurred had the acquisitions occurred at the beginning of fiscal 1998 or the results which may occur in the future.

Term Loan

On August 14, 1998, the Company received a commitment from NationsBank for an additional \$100,000 term loan, amending and increasing the existing \$250,000 credit facility to a total of \$350,000. The amended credit facility, consisting of a \$250,000 senior revolving credit facility and a \$100,000 term loan, was executed with the bank under essentially the same terms and conditions as the Company's existing credit facility. NationsBank is currently syndicating the \$350,000 facility with an expected closing date of September 30, 1998. On the syndication closing date, the Company will transfer \$100,000 from the revolving credit facility to the term loan. The expanded credit facility will be available for funding future acquisitions and working capital needs. The term loan will amortize quarterly over five years under the following amortization schedule with the first principal payment due January 30, 1999:

Year 1	\$10,000
Year 2	15,000
Year 3	15,000
Year 4	30,000
Year 5	30,000
	\$100,000

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

SCHOOL SPECIALTY, INC.  
(Registrant)

9/22/98

- - - - -

Date

/s/ Daniel P. Spalding

-----

Daniel P. Spalding  
Chairman of the Board and  
Chief Executive Officer  
(Principal Executive  
Officer)

9/22/98

- - - - -

Date

/s/ Donald J. Noskowiak

-----

Donald J. Noskowiak  
Executive Vice President  
and Chief Financial Officer  
(Principal Financial and  
Accounting Officer)