Rule 424(b)(4)
Reg. No. 333-7310

2,400,000 Shares
SCHOOL SPECIALTY, INC.
LOGO Common Stock

The Common Stock is quoted on the Nasdaq National Market under the symbol "SCHS." The last reported sale price for the Common Stock on April 12, 1999 was $18.50 per share.

See "Risk Factors" on page 10 to read about certain factors you should consider before buying shares of the Common Stock.

NEITHER THE SECURITIES AND EXCHANGE COMMISSION NOR ANY OTHER REGULATORY BODY HAS APPROVED OR DISAPPROVED OF THESE SECURITIES OR PASSED ON THE ACCURACY OR ADEQUACY OF THIS PROSPECTUS. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

	Per Share	Total
Initial price to public	$18.25	$43,800,000
Underwriting discount	$ 1.00	$ 2,400,000
Proceeds, before expenses, to School Specialty	$17.25	$41,400,000

The underwriters may, under certain circumstances, purchase up to an additional 360,000 shares from School Specialty at the initial price to public less the underwriting discount.

The underwriters expect to deliver the shares against payment in New York, New York on April 16, 1999.

GOLDMAN, SACHS & CO.
SALOMON SMITH BARNEY
U.S. BANCORP PIPER JAFFRAY

Prospectus dated April 12, 1999.

[PICTURES OF FRONT COVER PAGES OF COMPANY'S VARIOUS CATALOGS]

Childcraft(R) is a registered trademark of Childcraft Education Corp. School Specialty(R) and Education Access(R) are registered trademarks of School Specialty. Sportime(R) is a registered trademark of Sportime, LLC. Gresswell is a common law trademark of School Specialty. All other trademarks, service marks and trade names referred to in this Prospectus are the property of their respective owners.

PROSPECTUS SUMMARY

The following summary is qualified in its entirety by reference to the more detailed information and financial statements and pro forma financial statements appearing elsewhere in this Prospectus. Unless the context requires otherwise, all references to "School Specialty," "we" or "our" refers to School Specialty, Inc. and its subsidiaries. Our fiscal year ends on the last Saturday in April in each year. In this Prospectus, we refer to fiscal years by reference to the

calendar year in which they end (e.g., the fiscal year ended April 25, 1998 is referred to as "fiscal 1998"). Unless otherwise indicated, the information contained in this Prospectus assumes no exercise of the underwriters' over-allotment option.

SCHOOL SPECIALTY

OVERVIEW

We are the largest marketer of non-textbook educational supplies and furniture to schools for pre-kindergarten through twelfth grade. We offer more than 60,000 items through an innovative two-pronged marketing approach that targets both school administrators and individual teachers. Our broad product range enables us to provide our customers with one source for virtually all of their non-textbook school supplies and furniture needs.

We have grown significantly in recent years through both acquisitions and internal growth. In order to expand our geographic presence and product range, we have acquired 19 companies since May 1996. In August 1998, we purchased Beckley-Cardy, our largest traditional and specialty school supply competitor. After giving pro forma effect to the acquisitions that we made during the period (excluding the SmartStuff acquisition), our revenues for the twelve months ended January 23, 1999 were $606.5 million and our operating income before non-recurring acquisition and restructuring costs was $40.2 million, which represented compound annual increases of 48.9% and 70.7%, respectively, compared to our historical results for the year ended December 31, 1994.

Our "top down" marketing approach targets school administrators at the state, regional and local levels using our 250 sales representatives and our School Specialty and Beckley-Cardy general supply and furniture catalogs. Our "bottom up" approach seeks to reach individual teachers and curriculum specialists primarily through the mailing of our ClassroomDirect.com general supply catalog (previously known as Re-Print) and our seven different specialty direct catalogs. During 1998, we mailed over 10.2 million catalogs to more than three million teachers and curriculum specialists. Approximately 100 employees assist in the sale, marketing and merchandising of our specialty direct products. We are also exploring various ways in which we can use the Internet to market and sell our products. As the first stage of our Internet initiative, we recently opened a fully integrated e-commerce website under the name "ClassroomDirect.com" which offers over 13,000 items for sale. The second stage of our Internet initiative, which we expect to launch in May 1999, is an education portal in the form of an education mall which will offer our products for sale and also provide a community forum and content aimed at educators.

We sell general school supplies, such as classroom and art supplies, instructional materials, furniture and equipment. We also sell supplies and furniture for specialized educational disciplines, including the following:

BRAND	PRODUCTS
Childcraft..........	Early childhood
Sax Arts and Crafts............	Art supplies
Frey Scientific.....	Science
Sportime...........	Physical education
Education Access....	Educational software
Brodhead Garrett....	Industrial arts
Gresswell...........	Library
Hammond & Stephens...	School forms
SmartStuff..........	Software

School Specialty was incorporated as a wholly owned subsidiary by U.S. Office Products in Delaware in February 1998 to

hold its Educational Supplies and Products Division. On June 9, 1998, U.S. Office Products distributed all of the shares of School Specialty to its shareholders. At the same time as this distribution, School Specialty sold 2,375,000 shares of Common Stock in an initial public offering and a concurrent

offering to several of its officers and directors. Our principal executive offices are located at 1000 North Bluemound Drive, Appleton, Wisconsin 54914. Our telephone number is (920) 734-2756.

INDUSTRY TRENDS

The National School Supply Equipment Association estimates that annual sales of non-textbook educational supplies and equipment to the school supply market are approximately $6.1 billion. Of this amount, over $3.6 billion is sold through institutional channels and the remaining $2.5 billion is sold through retail channels. We estimate that there are over 3,400 marketers of non-textbook school supplies and equipment, the majority of which are family or employee owned businesses that operate in a single geographic region and have annual revenues under $20 million. We believe the increasing demand for single source suppliers, prompt order fulfillment and competitive prices, and the related need for suppliers to invest in automated inventory and electronic ordering systems, is accelerating the trend toward consolidation in our industry. As the largest company in our industry with annual revenues which we believe are three times greater than the next largest industry competitor, we are well positioned to capitalize on this consolidation. Even as the industry leader, our market share of the $6.1 billion non-textbook school supply and equipment market is less than 10%, creating substantial growth opportunities.

The demand for school supplies is driven primarily by the level of the student population and, to a lesser extent, expenditures per student. Student population is largely a function of demographics, while expenditures per student are also affected by government budgets and the prevailing political and social attitudes towards education. The U.S. Department of Education estimates that kindergarten through twelfth grade student enrollment in public and private schools reached a record level of 52.7 million students in 1998 and projects that it will continue to grow to 54.5 million by the year 2006. The U.S. Department of Education also projects that expenditures per student in public elementary and secondary schools will continue to rise through the year 2006. We believe that the current political and social environment is favorable for education spending.

KEY STRENGTHS

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

-- LEADING MARKET POSITION. We believe our annual revenues are three times greater than those of our next largest industry competitor and that our large size and brand recognition have resulted in significant buying power, economies of scale and customer loyalty.

-- BROAD PRODUCT LINE. With over 60,000 items ranging from classroom supplies and furniture to playground equipment, we provide customers with one source for virtually all of their non-textbook school supply and furniture needs.

-- INNOVATIVE TWO-PRONGED MARKETING APPROACH. By marketing our products both to school administrators and to individual teachers and curriculum specialists, we believe we market to all of the prospective purchasers in the school system in an efficient and profitable manner.

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

-- ABILITY TO COMPLETE AND INTEGRATE ACQUISITIONS. We have successfully completed the acquisition of 24 companies since 1991, including 19 since May 1996. We believe that we

can rapidly improve the revenues and gross and operating margins of the businesses we acquire by eliminating redundant expenses, leveraging overhead costs, increasing our purchasing power and cross merchandising their specialty products to our general supply customers (which we sometimes refer to as our "traditional" customers).

-- USE OF TECHNOLOGY. We believe that our use of information technology

systems allows us to turn inventory more quickly than our competitors, offer customers more convenient and cost effective ways of ordering products and more precisely focus our sales and marketing campaigns.

-- EXPERIENCED AND INCENTIVISED MANAGEMENT. Our management team provides depth and continuity of experience. Management's interests are aligned with those of our stockholders. Management currently owns approximately 7.6% of our shares of Common Stock on a fully-diluted basis and purchased approximately 1.7% of the currently outstanding shares at the same time as our initial public offering in June 1998.

GROWTH STRATEGY

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

-- AGGRESSIVELY PURSUE ACQUISITIONS. We believe that there are many attractive acquisition opportunities in our highly fragmented industry. As a public company, we have greater access to capital for acquisitions than many of our competitors. We will continue to pursue opportunities that enhance our geographic presence or which complement our specialty direct product offerings.

-- INCREASE SALES OF SPECIALTY AND PROPRIETARY PRODUCTS. We believe we can increase our margins by selling more specialty direct products and products for which we are the only supplier. We believe that specialty direct products accounted for approximately 42% of our revenues on a pro forma basis for the twelve months ended January 23, 1999, compared to approximately 20% on an historical basis for the year ended December 31, 1994.

-- EXPAND EXISTING TRADITIONAL BUSINESS. We believe that we can also increase the revenues of our traditional business by adding sales representatives in geographic markets in which we are underrepresented and by cross merchandising our specialty products to our traditional customers.

-- IMPROVE PROFITABILITY. We improved our operating margin (as measured by our operating income before non-recurring acquisition and restructuring costs divided by our revenues) from 3.8% in 1994 on an historical basis to 6.6% on a pro forma basis for the twelve months ended January 23, 1999. We believe that we can further improve our operating margins by eliminating redundant expenses of acquired businesses, leveraging our overhead costs, increasing our purchasing power and improving the efficiency of our warehousing and distribution.

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

THE OFFERING

Shares offered by School Specialty....	2,400,000
Shares outstanding after the offering..........................	17,183,348(1)
Use of proceeds......................	To repay a portion of the indebtedness outstanding under our Senior Credit Facility which was incurred in connection with four recent acquisitions. After such repayment, we may reborrow under the Senior Credit Facility for general corporate

	purposes including working capital, and for acquisitions.
Nasdaq National Market symbol.........	SCHS

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(1) Based on the number of shares outstanding as of April 1, 1999. Excludes 2,319,313 shares of Common Stock issuable upon exercise of outstanding options granted under our 1998 Stock Incentive Plan.

SUMMARY HISTORICAL AND PRO FORMA FINANCIAL DATA

The following tables present certain historical and pro forma financial data as of and for the periods indicated. This information should be read together with "Management's Discussion and Analysis of Financial Condition and Results of Operations," our consolidated financial statements and related notes and our pro forma combined financial statements and related notes, included elsewhere in this Prospectus.

SUMMARY HISTORICAL FINANCIAL DATA
(IN THOUSANDS, EXCEPT PER SHARE DATA)

	HISTORICAL(1)							
	FISCAL YEAR ENDED DECEMBER 31,		FOUR MONTHS ENDED	FISCAL YEAR ENDED		NINE MONTHS ENDED		TWELVE MONTHS ENDED
	1994(2)	1995(2)	APRIL 30, 1996(2)	APRIL 26, 1997(2)	APRIL 25, 1998(2)	JANUARY 24, 1998(2)	JANUARY 23, 1999	JANUARY 23, 1999(3)
STATEMENT OF INCOME DATA:								
Revenues..................	$119,510	$150,482	$28,616	$191,746	$310,455	$247,880	$424,332	$486,907
Cost of revenues..........	82,951	98,233	18,591	126,862	202,870	164,105	281,436	320,201
Gross profit..............	$ 36,559	$ 52,249	$10,025	$ 64,884	$107,585	$ 83,775	$142,896	$166,706
Selling, general and administrative expenses................	32,080	47,393	11,917	53,177	87,846	63,395	108,005	132,456
Non-recurring acquisition costs....................	--	--	1,122	1,792	--	--	--	--
Restructuring costs.......	--	2,532	--	194	3,491	--	5,274	8,765
Operating income (loss)...	$ 4,479	$ 2,324	$(3,014)	$ 9,721	$ 16,248	$ 20,380	$ 29,617	$ 25,485
Interest expense..........	3,007	5,536	1,461	4,197	5,505	4,100	8,942	10,347
Interest income...........	--	--	(6)	--	(132)	(109)	(114)	(137)
Other (income) expense....	(86)	(18)	67	(196)	156	441	--	(285)
Income (loss) before provision for (benefit from) income taxes.......	$ 1,558	$ (3,194)	$(4,536)	$ 5,720	$ 10,719	$ 15,948	$ 20,789	$ 15,560
Provision for (benefit from) income taxes(4)....	218	173	139	(2,412)	5,480	7,113	10,094	8,461
Net income (loss).........	$ 1,340	$ (3,367)	$(4,675)	$ 8,132	$ 5,239	$ 8,835	$ 10,695	$ 7,099
Net income (loss) per share:								
Basic....................	$ 0.26	$ (0.51)	$ (0.54)	$ 0.81	$ 0.40	$ 0.69	$ 0.73	$ 0.48
Diluted..................	0.26	(0.50)	(0.53)	0.80	0.39	0.68	0.73	0.48
Weighted average shares outstanding:								
Basic....................	5,062	6,562	8,611	10,003	13,284	12,751	14,625	14,714
Diluted..................	5,078	6,669	8,789	10,196	13,547	13,020	14,665	14,744

	DECEMBER 31,					
	1994	1995	APRIL 30, 1996	APRIL 26, 1997	APRIL 25, 1998	JANUARY 23, 1999
BALANCE SHEET DATA:						
Working capital (deficit)..................	$ 3,512	$(1,052)	$(3,663)	$14,491	$ 47,791	$ 90,826
Total assets...............................	44,267	54,040	54,573	87,685	223,729	378,513
Long-term debt.............................	11,675	15,294	15,031	33,792	63,014	162,199
Total debt.................................	32,276	39,783	40,918	60,746	83,302	172,513
Stockholders' (deficit) equity.............	1,827	(620)	(4,267)	16,329	106,466	159,067

SUMMARY PRO FORMA FINANCIAL DATA

(IN THOUSANDS, EXCEPT PER SHARE DATA)

	PRO FORMA COMBINED(6)			
	FISCAL YEAR ENDED	NINE MONTHS ENDED		TWELVE MONTHS ENDED
	APRIL 25, 1998(2)	JANUARY 24, 1998(2)	JANUARY 23, 1999	JANUARY 23, 1999(3)
STATEMENT OF INCOME DATA:				
Revenues	$597,285	$496,941	$506,180	$606,524
Cost of revenues	389,818	327,174	330,786	393,430
Gross profit	$207,467	$169,767	$175,394	$213,094
Selling, general and administrative expenses	175,403	135,598	133,046	172,851
Restructuring costs	4,689	1,198	5,401	8,892
Operating income	$ 27,375	$ 32,971	$ 36,947	$ 31,351
Interest expense	17,000	13,500	13,500	17,000
Other expense	193	536	420	77
Income before provision for income taxes	$ 10,182	$ 18,935	$ 23,027	$ 14,274
Provision for income taxes	5,906	10,982	11,283	6,207
Net income	$ 4,276	$ 7,953	$ 11,744	$ 8,067
Net income per share(5):				
Basic	$ 0.27	$ 0.53	$ 0.78	$ 0.52
Diluted	0.27	0.52	0.78	0.52
Weighted average shares outstanding(5):				
Basic	15,659	15,126	15,025	15,608
Diluted	15,922	15,395	15,065	15,638

	PRO FORMA AS ADJUSTED(6)			
	FISCAL YEAR ENDED	NINE MONTHS ENDED		TWELVE MONTHS ENDED
	APRIL 25, 1998(2)	JANUARY 24, 1998(2)	JANUARY 23, 1999	JANUARY 23, 1999(3)
STATEMENT OF INCOME DATA:				
Revenues	$597,285	$496,941	$506,180	$606,524
Cost of revenues	389,818	327,174	330,786	393,430
Gross profit	$207,467	$169,767	$175,394	$213,094
Selling, general and administrative expenses	175,403	135,598	133,046	172,851
Restructuring costs	4,689	1,198	5,401	8,892
Operating income	$ 27,375	$ 32,971	$ 36,947	$ 31,351
Interest expense	13,716	11,037	11,037	13,716
Other expense	193	536	420	77
Income before provision for income				

taxes	$ 13,466	$ 21,398	$ 25,490	$ 17,558
Provision for income taxes	7,221	11,967	12,268	7,522
Net income	$ 6,245	$ 9,431	$ 13,222	$ 10,036
Net income per share(5):				
Basic	$ 0.35	$ 0.54	$ 0.76	$ 0.56
Diluted	0.34	0.53	0.76	0.56
Weighted average shares outstanding(5):				
Basic	18,059	17,526	17,425	18,008
Diluted	18,322	17,795	17,465	18,038

	JANUARY 23, 1999(7)	
	PRO FORMA COMBINED	PRO FORMA AS ADJUSTED
BALANCE SHEET DATA:		
Working capital	$ 99,339	$ 99,339
Total assets	403,920	403,920
Long-term debt	185,268	144,218
Total debt	195,582	154,532
Stockholders' equity	159,067	200,117

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

(2) Certain reclassifications have been made to the historical and pro forma financial data for the fiscal years ended December 31, 1994 and 1995, the four months ended April 30, 1996, the fiscal years ended April 26, 1997 and April 25, 1998 and the nine months ended January 24, 1998 to conform with the fiscal 1999 presentation. These reclassifications had no effect on net income or net income per share.

(3) The results for the historical and pro forma twelve months ended January 23, 1999 have been calculated based upon the historical and pro forma results, respectively, for the fiscal year ended April 25, 1998 less the historical and pro forma results, respectively, for the nine months ended January 24, 1998 plus the historical and pro forma results, respectively, for the nine months ended January 23, 1999.

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

(5) For calculation of the pro forma combined and pro forma as adjusted

weighted average shares outstanding, see Note (j) and Note (k), respectively, of Notes to Pro Forma Combined Financial Statements included herein.

(6) The pro forma combined financial data give effect, as applicable, to all acquisitions completed through February 9, 1999 (which does not include the SmartStuff acquisition), the spin-off and the refinancing of all amounts payable to U.S. Office Products in connection with the spin-off, the June 1998 initial public offering and concurrent offering to certain officers and directors, as if all such transactions had occurred at the beginning of the periods presented. The pro forma as adjusted financial data also gives effect to the Common Stock offering, as if such transaction had occurred at the beginning of the periods presented. The pro forma statement of income data are not necessarily indicative of the operating results that would have been achieved had these events actually occurred on such dates and should not be construed as representative of future operating results.

(7) The pro forma combined balance sheet data give effect to the purchase acquisition of Sportime, the only acquisition (other than SmartStuff) completed subsequent to January 23, 1999, as if it had occurred on January 23, 1999 (the purchase of SmartStuff is not reflected in the balance sheet data). This pro forma balance sheet data is then adjusted, as indicated, to reflect the Common Stock offering as if it had occurred on January 23, 1999. The pro forma balance sheet data and the adjustments to that data are not necessarily indicative of the financial position that would have been achieved had these events actually occurred on such date and should not be construed as representative of future financial position.

RISK FACTORS

You should carefully consider the following risk factors and the other information in this Prospectus before deciding to purchase shares of our Common Stock.

WE HAVE A POTENTIAL TAX LIABILITY FROM SPIN-OFFS

We became a public company on June 9, 1998 when U.S. Office Products distributed all of our shares and the shares of three other companies to its shareholders and we sold additional shares of our stock in a public offering. These distributions (known as the "spin-offs") were intended to be tax-free to both U.S. Office Products and its shareholders. As part of the spin-offs, we and the other three companies whose shares were distributed each agreed with U.S. Office Products that if any of us took any action or failed to act in a way that materially caused the distributions to be taxable, then U.S. Office Products could require any of us to pay to it the full amount of the tax losses it suffered as a result of the distributions. We and the three other spin-off companies also agreed that if the distributions became taxable for any other reason, we would each pay to U.S. Office Products a portion of its tax losses based on the relative aggregate value of each company's common stock immediately after the distributions. We estimate that our portion of any such tax losses under this agreement would be approximately 14.4%. We also agreed with the other three spin-off companies that if one or more of us materially caused the distributions to be taxable and any of the other companies were required to pay tax losses under the agreement to U.S. Office Products, then the company or companies that materially caused the distributions to be taxable would reimburse the other companies for such payments. As a result of these agreements, we could be required to pay:

-- all of the tax losses of U.S. Office Products if we cause the distributions to be taxable,

-- our portion of the tax losses of U.S. Office Products even if neither we nor any of the other three companies cause the distributions to be taxable, or

-- all of the tax losses of U.S. Office Products even if we did not cause the distributions to be taxable and one or more of the other companies did (while such other companies would be required to reimburse us for such payment, we cannot be sure that we will receive such reimbursement).

WE ARE EXPOSED TO RISKS RELATED TO OTHER LIABILITIES OF U.S. OFFICE PRODUCTS

As part of the distributions, we and the other three spin-off companies each agreed with U.S. Office Products to pay a portion of the securities law and general liabilities of U.S. Office Products arising prior to the distributions and, if any of the spin-off companies fails to pay its portion, to pay a portion of the unpaid amount. These shared liabilities do not include any liability that relates specifically to a particular spin-off company or to the continuing businesses of U.S. Office Products after the distributions. The portion of the shared liabilities payable by each spin-off company is based on the average of each company's revenues for fiscal 1998 relative to those of U.S. Office Products and each company's operating income for fiscal 1998 relative to that of U.S. Office Products. We estimate that our portion of any such liabilities under this agreement would be approximately 9.8%, but the maximum aggregate amount we can be required to pay for all shared liabilities is limited by the agreement to $1.75 million (including as a result of defaults by the other spin-off companies). U.S. Office Products has been named as a defendant in various class action lawsuits relating to the distributions that allege, among other things, violations of the federal securities laws. As a result of these agreements, we may be required to pay up to $1.75 million to U.S. Office Products for shared liabilities even though they are unrelated to our business and operations, we have no control over such liabilities and one or more of the other spin-off companies may be primarily responsible for such liabilities.

WE HAVE A LIMITED INDEPENDENT OPERATING HISTORY

Prior to the spin-off in June 1998, we operated as a wholly owned subsidiary of U.S. Office Products and many of our general, administrative and financial functions (including legal, accounting, purchasing, management information services and borrowings) were handled by U.S. Office Products. Since the spin-off, we have operated independently of U.S. Office Products and have been independently responsible for managing and financing all aspects of our business and operations. Our expenses are likely to be higher than when we were a subsidiary of U.S. Office Products and we may experience difficulties with respect to general, administrative and financial functions that we did not experience as part of U.S. Office Products. Because most of the financial information included in this Prospectus relates to periods during which we were a subsidiary of U.S. Office Products, it does not necessarily reflect what our results of operations and financial condition would have been if we were independent during those periods and it may not be a good indication of what our future results of operations and financial condition will be.

WE HAVE EXPERIENCED RAPID GROWTH AND DEPEND UPON ACQUISITIONS FOR FUTURE GROWTH

Our business has grown significantly through acquisitions in recent years. Since 1991, we have acquired 17 regional marketers of general educational supplies and seven specialty direct school supply companies. All of our specialty direct acquisitions and 12 of our regional marketer acquisitions have occurred since June 1996. Future growth in our revenues and earnings depends substantially on our ability to continue to acquire and successfully integrate and operate school supply businesses. We cannot guarantee that we will be able to identify and acquire businesses at all or on reasonable terms. In addition, we cannot be sure that we will be able to operate the businesses that we acquire profitably or that our management and financial controls, personnel, computer systems and other corporate support systems will be adequate to manage the increased size and scope of our operations as a result of acquisitions. 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. These include:

- the diversion of management's attention and other resources away from our existing businesses,

- significant charges and expenses relating to employee severance, restructuring and transaction costs and other unexpected events or liabilities,

- the inability to retain, hire or train qualified personnel for the acquired businesses, and

- the amortization of goodwill and other acquired intangible assets.

We intend to pay for acquisitions in whole or in part using our shares, and in some cases this may dilute our earnings per share. Our ability and willingness to use our shares will depend upon their market price and the willingness of sellers to accept our shares. In addition, our ability to issue shares may be limited by Section 355(e) of the Internal Revenue Code of 1986. Under that Section, U.S. Office Products will incur tax liability for the distribution of our shares if 50% or more, by vote or value, of the capital stock of either U.S. Office Products or School Specialty is acquired by one or more persons acting pursuant to a plan or series of related transactions that includes the spin-off. There is a presumption that any acquisition occurring within two years after the spin-off is pursuant to a plan that includes the spin-off. However, the presumption may be overcome by establishing that the spin-off and such acquisition are not part of a plan or series of related transactions. As noted above, we will be liable for all the tax liabilities of U.S. Office Products if our actions cause the spin-off to be taxable and will be liable for all or a portion of such liabilities even if our actions did not cause the spin-off to be taxable.

WE ARE UNABLE TO USE THE POOLING-OF-INTERESTS METHOD OF ACCOUNTING; WE HAVE A MATERIAL AMOUNT OF GOODWILL

Under generally accepted accounting principles, we must be independent for at least two years before we can use the pooling-of-interests method of accounting for share acquisitions, which would avoid the creation and subsequent amortization of goodwill. Because we were a wholly owned subsidiary of U.S. Office Products until the completion of the spin-off on June 9, 1998, we will not be eligible to use pooling-of-interest accounting until June 9, 2000. We must use purchase accounting for any acquisitions prior to that date, which may result in the creation of goodwill.

Approximately $197.3 million, or 48.9%, of our pro forma total assets as of January 23, 1999 represents intangible assets, the significant majority of which is goodwill. Goodwill is the amount by which the costs of an acquisition accounted for using the purchase method exceeds the fair value of the net assets we acquire. We are required to record goodwill as an intangible asset on our balance sheet and to amortize it over a period of years. We generally amortize goodwill for each acquisition on a straight line method over a period of 40 years, which means that in each year during the 40-year period 1/40(th) of the goodwill is taken off our balance sheet and recorded in our income statement as a non-cash expense (which reduces our net income). Even though it reduces our net income for accounting purposes, amortization of goodwill may not be deductible for tax purposes. In addition, we are required to periodically evaluate whether we can recover our remaining goodwill from the undiscounted future cash flows that we expect to receive from the operations of the acquired companies. If these undiscounted future cash flows are less than the carrying value of the associated goodwill, the goodwill is impaired and we must reduce the carrying value of the goodwill to equal the undiscounted future cash flows and take the amount of the reduction as a charge against our income. Reductions in our net income caused by the amortization or write down of goodwill could materially adversely affect our results of operations and financial condition and the market price of our Common Stock.

OUR BUSINESS DEPENDS ON GROWTH OF STUDENT POPULATION AND SCHOOL EXPENDITURES

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

OUR BUSINESS IS HIGHLY SEASONAL

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

fiscal quarter. This seasonality causes our operating results to vary considerably from quarter to quarter and these fluctuations could adversely affect the market price of our Common Stock.

WE DEPEND ON KEY SUPPLIERS AND SERVICE PROVIDERS

We depend upon a limited number of suppliers for some of our products, especially furniture. We also depend upon a limited number of service providers, including United Parcel Service, for the delivery of our products. If these suppliers or service providers are unable to provide the products or services that we require or materially increase their costs (especially during our peak season of June through September), this could impair our ability to deliver our products on a timely and profitable basis and could have a material adverse effect on our

business, financial condition and results of operations. We were, for example, adversely affected by the United Parcel Service strike during August 1997 due to the perception that we were unable to ship products. As we seek to reduce the number of our suppliers and to minimize duplicative lines as part of our business strategy, we are likely to increase our dependence on remaining vendors.

WE RELY ON KEY PERSONNEL

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

OUR BUSINESS IS HIGHLY COMPETITIVE

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

WE DEPEND ON OUR SYSTEMS; OUR YEAR 2000 ISSUES

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

Our Sax Arts and Crafts, Gresswell, Hammond & Stephens and Sportime businesses currently use predecessor information systems. With the exception of Gresswell, we intend to convert the information systems of these acquired businesses to one of our host systems as soon as practicable. However, none of these businesses has a backup computer system or backup extra communication lines. Even though we have taken precautions to protect ourselves from events that could interrupt the operations of these businesses and intend to do so for other businesses we acquire in the future, we cannot be sure that a fire, flood or other natural disaster affecting their systems would not disable the system or prevent the system from communicating with our other businesses. The occurrence of any of these events could have a material adverse effect on our results of operations and financial condition.

The Year 2000 issue exists because many computer systems and applications, including those embedded in equipment and facilities, use two digit rather than four digit date fields to designate an applicable year. As a result, the systems and applications may not properly recognize the Year 2000 or process data which includes it, potentially causing data miscalculations or inaccuracies or operational malfunctions or failures. Because any disruption to our computerized order processing and inventory systems could materially and adversely affect our operations, we have established a centrally managed,

company wide plan to identify, evaluate and address Year 2000 issues. Although we expect that most of our mission critical systems, network elements and products will be verified for Year 2000 compliance by May 1999, our ability to meet this target is dependent on a variety of factors. In addition, if our suppliers, service providers and/or customers fail to resolve their Year 2000 issues in an effective and timely manner, our business could be significantly and adversely affected. We believe that many of our school customers have not yet addressed or resolved their Year 2000 issues.

WE DO NOT EXPECT TO PAY DIVIDENDS

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

WE ARE HIGHLY LEVERAGED

As of January 23, 1999, we had $195.6 million of debt outstanding on a pro forma basis. If we had issued the Common Stock in this offering and applied the proceeds from this offering on that date, our outstanding debt would have been $154.5 million or approximately 44% of our total capitalization. In addition, our leverage could increase over time. Our Senior Credit Facility permits us to incur additional debt under certain circumstances and we expect to reborrow under our Senior Credit Facility for general corporate purposes, including working capital and for acquisitions.

Our ability to meet our debt service obligations depends on our future performance. Our future performance is influenced by general economic conditions and by financial, business and other factors affecting our operations, many of which are beyond our control. If we are unable to service our debt, we may have to:

- delay our acquisition program,
- sell our equity securities,
- sell our assets, or
- restructure and refinance our debt.

We cannot give you any assurance that, if we are unable to service our debt, we will be able to sell our equity securities, sell assets or restructure and refinance our debt. Our substantial debt could have important consequences to you. For example, it could:

- make it more difficult for us to obtain additional financing in the future for our acquisitions and operations,
- require us to dedicate a substantial portion of our cash flows from operations to the repayment of our debt and the interest associated with our debt,
- limit our operating flexibility due to financial and other restrictive covenants, including restrictions on incurring additional debt, creating liens on our property and paying dividends,
- subject us to risks that interest rates and our interest expense will increase,
- place us at a competitive disadvantage compared to our competitors

that have less debt, and

-- make us more vulnerable in the event of a downturn in our business.

DISCLOSURE REGARDING FORWARD-LOOKING STATEMENTS

This Prospectus contains forward-looking statements that involve risks and uncertainties. The words "anticipate," "believe," "estimate," "intend," "may," "will" and "expect" are intended to identify forward-looking statements. There are important factors that could cause our actual results, performance or achievement to differ materially from the results suggested by the forward-looking statements. Factors discussed under the captions "Risk Factors," "Use of Proceeds," "Management's Discussion and Analysis of Financial Condition and Results of Operations" and "Business" are particularly susceptible to risks and uncertainties. Such forward-looking statements should, therefore, be considered in light of various important factors, including those set forth in this Prospectus and other factors set forth from time to time in our reports and registration statements filed with the Securities and Exchange Commission (the "SEC"). You are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date hereof. We disclaim any intent or obligation to update forward-looking statements.

USE OF PROCEEDS

We expect to receive approximately $41.1 million ($47.3 million if the underwriters' over-allotment option is exercised in full) of net proceeds from this offering (based on an initial price to public for the Common Stock of $18.25 per share, less estimated offering expenses and underwriters' discounts).

We intend to use the net proceeds from this offering to repay a portion of our outstanding revolving credit borrowings under our five year secured $350 million Senior Credit Facility. The Senior Credit Facility permits up to $250 million in revolving credit loans which mature on September 30, 2003. As of January 23, 1999, we had approximately $72.5 million outstanding in revolving credit loans. The Senior Credit Facility also has a $100 million term loan payable quarterly over five years commencing in January 1999. The Senior Credit Facility has a floating rate of interest for borrowings thereunder. As of January 23, 1999, the effective interest rate on borrowings under our Senior Credit Facility was approximately 8%. Since the beginning of fiscal 1999, we borrowed under the Senior Credit Facility to fund four acquisitions and for seasonal working capital and capital expenditures.

In connection with the Common Stock offering, we intend to amend our Senior Credit Facility to change certain financial and other covenants. See "Description of Senior Credit Facility." We intend to reborrow amounts under our Senior Credit Facility for general corporate purposes including working capital, and for acquisitions.

DIVIDEND POLICY

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

PRICE RANGE OF COMMON STOCK

Our Common Stock has traded on the Nasdaq National Market since June 10, 1998 under the symbol "SCHS." There was no market for the Common Stock prior to that date. The following table sets forth, for the periods indicated, the high and low sale prices per share of the Common Stock as reported on the Nasdaq National Market:

FISCAL QUARTER ENDED	HIGH	LOW
July 25, 1998	$17.8750	$14.3750
October 24, 1998	$17.0000	$10.6250
January 23, 1999	$25.0625	$13.8750
April 24, 1999 (through April 12, 1999)	$25.8750	$17.7500

On April 12, 1999, the last reported sale price of the Common Stock on the Nasdaq National Market was $18.50 per share. As of April 1, 1999, there were 3,573 record holders of the Common Stock.

CAPITALIZATION

The following table sets forth, as of January 23, 1999, our capitalization (1) on an historical basis, (2) on a pro forma basis to reflect the acquisition of Sportime, which occurred subsequent to January 23, 1999 (the SmartStuff acquisition is not reflected in the table) and (3) on a pro forma basis described in clause (2) above as adjusted to give effect to the sale of the Common Stock in this offering and the application of the assumed net proceeds therefrom as described herein (based on an initial price to public for the Common Stock of $18.25 per share).

	JANUARY 23, 1999		
	HISTORICAL	PRO FORMA COMBINED	PRO FORMA AS ADJUSTED
	(IN THOUSANDS)		
Short-term debt	$ 10,314	$ 10,314	$ 10,314
Long-term debt	162,199	185,268	144,218
Total debt	172,513	195,582	154,532
Stockholders' equity:			
Preferred stock, $0.001 par value (1,000,000 shares authorized; no shares outstanding)	--	--	--
Common stock, $0.001 par value (150,000,000 shares authorized; 14,578,925 shares issued and outstanding, historical and pro forma combined; 16,978,925 shares issued and outstanding, pro forma as adjusted for the Common Stock offering)(1)	15	15	17
Additional paid-in capital	146,768	146,768	187,816
Accumulated other comprehensive income	6	6	6
Retained earnings	12,278	12,278	12,278
Total stockholders' equity	159,067	159,067	200,117
Total capitalization	$331,580	$354,649	$354,649

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(1) Excludes 2,319,313 shares of Common Stock issuable upon exercise of outstanding options granted under our 1998 Stock Incentive Plan.

SELECTED HISTORICAL AND PRO FORMA FINANCIAL DATA

The selected historical financial data set forth below for the fiscal year ended December 31, 1995, the four months ended April 30, 1996 and the fiscal years ended April 26, 1997 and April 25, 1998 have been derived from our audited consolidated financial statements included elsewhere in this Prospectus. The selected historical financial data for the fiscal year ended December 31, 1994

have been derived from our audited consolidated financial statements which are not included elsewhere in this Prospectus. The selected historical financial data for the fiscal year ended December 31, 1993 have been derived from unaudited consolidated financial statements which are not included elsewhere in this Prospectus. The selected historical financial data for the nine months ended January 24, 1998 and January 23, 1999 have been derived from our unaudited consolidated financial statements that appear elsewhere in this Prospectus. These unaudited consolidated financial statements have been prepared on the same basis as the audited consolidated financial statements and, in the opinion of management, contain all adjustments, consisting only of normal recurring accruals, necessary for a fair presentation of the results of operations for the periods presented. Because of the seasonality of our business, our results of operations for the first nine months of our fiscal year are not representative of our results of operations for the entire fiscal year.

The selected pro forma data, which have been derived from our unaudited pro forma combined financial statements included elsewhere in this Prospectus, give effect, as applicable, to all acquisitions completed through February 9, 1999 (which does not include the SmartStuff acquisition), the spin-off and the refinancing of all amounts payable to U.S. Office Products in connection with the spin-off, the June 1998 initial public offering and concurrent offering to certain officers and directors and the Common Stock offering (based on an initial price to public for the Common Stock of $18.25 per share), as if all such transactions had occurred at the beginning of the periods presented. The unaudited pro forma combined financial data discussed herein do not purport to represent the results that we would have obtained had the transactions which are the subject of the pro forma adjustments occurred at the beginning of the applicable periods, as assumed, or our future results. See additional disclosure regarding pro forma results in the Financial Statements section of this Prospectus.

The selected financial data set forth below should be read in conjunction with "Management's Discussion and Analysis of Financial Condition and Results of Operations," our consolidated financial statements and related notes and our pro forma combined financial statements and related notes, included elsewhere in this Prospectus.

SELECTED HISTORICAL FINANCIAL DATA
(IN THOUSANDS, EXCEPT PER SHARE DATA)

	HISTORICAL(1)							
	FISCAL YEAR ENDED DECEMBER 31,			FOUR MONTHS ENDED	FISCAL YEAR ENDED		NINE MONTHS ENDED	
	1993(2)	1994(2)	1995(2)	APRIL 30, 1996(2)	APRIL 26, 1997(2)	APRIL 25, 1998(2)	JANUARY 24, 1998(2)	JANUARY 23, 1999
STATEMENT OF INCOME DATA:								
Revenues	$76,926	$119,510	$150,482	$28,616	$191,746	$310,455	$247,880	$424,332
Cost of revenues	53,760	82,951	98,233	18,591	126,862	202,870	164,105	281,436
Gross profit	$23,166	$ 36,559	$ 52,249	$10,025	$ 64,884	$107,585	$ 83,775	$142,896
Selling, general and administrative expenses	20,814	32,080	47,393	11,917	53,177	87,846	63,395	108,005
Non-recurring acquisition costs	--	--	--	1,122	1,792	--	--	--
Restructuring costs	--	--	2,532	--	194	3,491	--	5,274
Operating income (loss)	$ 2,352	$ 4,479	$ 2,324	$(3,014)	$ 9,721	$ 16,248	$ 20,380	$ 29,617
Interest expense	1,845	3,007	5,536	1,461	4,197	5,505	4,100	8,942
Interest income	--	--	--	(6)	--	(132)	(109)	(114)
Other (income) expense	228	(86)	(18)	67	(196)	156	441	--
Income (loss) before provision for (benefit from) income taxes	$ 279	$ 1,558	$ (3,194)	$(4,536)	$ 5,720	$ 10,719	$ 15,948	$ 20,789
Provision for (benefit from) income taxes(3)	199	218	173	139	(2,412)	5,480	7,113	10,094
Net income (loss)	$ 80	$ 1,340	$ (3,367)	$(4,675)	$ 8,132	$ 5,239	$ 8,835	$ 10,695
Net income (loss) per share:								
Basic	$ 0.02	$ 0.26	$ (0.51)	$ (0.54)	$ 0.81	$ 0.40	$ 0.69	$ 0.73
Diluted	0.02	0.26	(0.50)	(0.53)	0.80	0.39	0.68	0.73
Weighted average shares outstanding:								
Basic	4,918	5,062	6,562	8,611	10,003	13,284	12,751	14,625
Diluted	4,918	5,078	6,669	8,789	10,196	13,547	13,020	14,665

	DECEMBER 31,			APRIL 30,	APRIL 26,	APRIL 25,	JANUARY 23,
	1993	1994	1995	1996	1997	1998	1999
BALANCE SHEET DATA:							
Working capital (deficit)	$ 1,140	$ 3,512	$(1,052)	$(3,663)	$14,491	$ 47,791	$ 90,826
Total assets	23,190	44,267	54,040	54,573	87,685	223,729	378,513
Long-term debt	7,175	11,675	15,294	15,031	33,792	63,014	162,199
Total debt	16,576	32,276	39,783	40,918	60,746	83,302	172,513
Stockholders' (deficit) equity	545	1,827	(620)	(4,267)	16,329	106,466	159,067

SELECTED PRO FORMA FINANCIAL DATA
(IN THOUSANDS, EXCEPT PER SHARE DATA)

	PRO FORMA COMBINED(5)			PRO FORMA AS ADJUSTED(5)		
	FISCAL YEAR ENDED	NINE MONTHS ENDED		FISCAL YEAR ENDED	NINE MONTHS ENDED	
	APRIL 25, 1998(2)	JANUARY 24, 1998(2)	JANUARY 23, 1999	APRIL 25, 1998(2)	JANUARY 24, 1998(2)	JANUARY 23, 1999
STATEMENT OF INCOME DATA:						
Revenues	$597,285	$496,941	$506,180	$597,285	$496,941	$506,180
Cost of revenues	389,818	327,174	330,786	389,818	327,174	330,786
Gross profit	$207,467	$169,767	$175,394	$207,467	$169,767	$175,394
Selling, general and administrative expenses	175,403	135,598	133,046	175,403	135,598	133,046
Restructuring costs	4,689	1,198	5,401	4,689	1,198	5,401
Operating income	$ 27,375	$ 32,971	$ 36,947	$ 27,375	$ 32,971	$ 36,947
Interest expense	17,000	13,500	13,500	13,716	11,037	11,037
Other expense	193	536	420	193	536	420
Income before provision for income taxes	$ 10,182	$ 18,935	$ 23,027	$ 13,466	$ 21,398	$ 25,490
Provision for income taxes	5,906	10,982	11,283	7,221	11,967	12,268
Net income	$ 4,276	$ 7,953	$ 11,744	$ 6,245	$ 9,431	$ 13,222
Net income per share(4):						
Basic	$ 0.27	$ 0.53	$ 0.78	$ 0.35	$ 0.54	$ 0.76
Diluted	0.27	0.52	0.78	0.34	0.53	0.76
Weighted average shares outstanding(4):						
Basic	15,659	15,126	15,025	18,059	17,526	17,425
Diluted	15,922	15,395	15,065	18,322	17,795	17,465

	JANUARY 23, 1999(6)	
	PRO FORMA COMBINED	PRO FORMA AS ADJUSTED
BALANCE SHEET DATA:		
Working capital	$ 99,339	$ 99,339
Total assets	403,920	403,920
Long-term debt	185,268	144,218
Total debt	195,582	154,532
Stockholders' equity	159,067	200,117

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

(2) Certain reclassifications have been made to the historical and pro forma financial data for the fiscal years ended December 31, 1993, 1994 and 1995, the four months ended April 30, 1996, the fiscal years ended April 26, 1997 and April 25, 1998 and the nine months ended January 24, 1998 to conform with the fiscal 1999 presentation. These reclassifications had no effect on net income or net income per share.

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

(4) For calculation of the pro forma combined and pro forma as adjusted weighted average shares outstanding, see Note (j) and Note (k), respectively, of Notes to Pro Forma Combined Financial Statements included herein.

(5) The pro forma combined financial data give effect, as applicable, to all acquisitions completed through February 9, 1999 (which does not include the SmartStuff acquisition), the spin-off and the refinancing of all amounts payable to U.S. Office Products in connection with the spin-off, the June 1998 initial public offering and concurrent offering to certain officers and directors, as if all such transactions had occurred at the beginning of the periods presented. The pro forma as adjusted financial data also gives effect to the Common Stock offering, as if such transaction had occurred at the beginning of the periods presented. The pro forma statement of income data are not necessarily indicative of the operating results that would have been achieved had these events actually occurred on such dates and should not be construed as representative of future operating results.

(6) The pro forma combined balance sheet data give effect to the purchase acquisition of Sportime, the only acquisition (other than SmartStuff) completed subsequent to January 23, 1999, as if it had occurred on January 23, 1999 (the purchase acquisition of SmartStuff is not reflected in the balance sheet data). This pro forma balance sheet data is then adjusted, as indicated, to reflect the Common Stock offering as if it had occurred on January 23, 1999. The pro forma balance sheet data and the adjustments to that data are not necessarily indicative of the financial position that would have been achieved had these events actually occurred on such date and should not be construed as representative of future financial position.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

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

OVERVIEW

We are the largest marketer of non-textbook educational supplies and furniture to schools for pre-kindergarten through twelfth grade. We offer more than 60,000 items through an innovative two-pronged marketing approach that targets both school administrators and individual teachers. Our broad product range enables us to provide our customers with one source for virtually all of their non-textbook school supplies and furniture needs.

We have grown significantly in recent years both through acquisitions and internal growth. In order to expand our geographic presence and product range, we have acquired 19 companies since May 1996. In August 1998, we purchased Beckley-Cardy, our largest traditional and specialty school supply competitor.

Revenues have increased from $119.5 million for the fiscal year ended December 31, 1994 to $310.5 million for the fiscal year ended April 25, 1998 and $486.9 million for the twelve months ended January 23, 1999. This increase resulted primarily from 19 acquisitions, 15 of which occurred during fiscal 1997

and fiscal 1998, as well as internally generated growth. After giving pro forma effect to the acquisitions that we made during the period (excluding the SmartStuff acquisition), our revenues for the twelve months ended January 23, 1999 were $606.5 million and our operating income before non-recurring acquisition and restructuring costs was $40.2 million, which represented compound annual increases of 48.9% and 70.7%, respectively, compared to our historical results for the year ended December 31, 1994. While acquisitions have the effect of increasing overall revenues, there may be short-term reductions in the revenues of the acquired businesses due to rationalization of product line and sales force integrations and reductions.

Our gross profit margin has improved in recent years primarily due to acquisitions. We have acquired many specialty direct businesses, which tend to have higher gross margins than our traditional supply businesses. In addition, our acquisitions of both specialty direct and traditional supply businesses have increased our buying power and we have used this to reduce the cost of the products we purchase. Acquisitions of traditional supply businesses may have a negative impact on our gross margin, although over time we should benefit from increased purchasing power leverage. We believe that we can continue to improve our gross margins by acquiring specialty businesses and by leveraging increased purchasing power.

Our operating margins have also improved significantly over the last several years. This improvement reflects our recent acquisitions of specialty companies which have higher operating margins than our general supply businesses. In addition, through the integration of acquired businesses (both specialty and general supply), we have been able to further improve our operating margins by eliminating redundant expenses, leveraging overhead costs and improving purchasing power. While we have already achieved significant operating margin improvements from the acquisitions we have made to date, we believe there are still opportunities to eliminate redundant expenses. In addition, because our business is seasonal, the timing of our acquisitions may affect the comparability of our operating margins in the short term. In particular, we have historically made many of our acquisitions during our peak selling period (the first two quarters of our fiscal year) when operating margins are at their highest. Because they have been accounted for using the purchase method of accounting, these acquisitions have caused our operating margins for the year in which

the acquisitions occurred to be higher than they would have been if the results of the acquired businesses had been included for the full year.

The benefit from income taxes in fiscal 1997 of $2.4 million reflects the reversal of a $5.3 million deferred tax valuation allowance in the fourth quarter. An effective income tax rate of 49% is reflected in the pro forma financial statements for the most recent interim period. Our effective tax rate is higher than the federal statutory tax rate of 35% due primarily to non-deductible goodwill amortization and state taxes. Our effective tax rate for future periods may fluctuate based on the size and structure of acquisitions and the tax deductible nature of acquired goodwill. See "-- Consolidated Historical Results of Operations."

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

Until June 9, 2000, we will be limited to using the purchase method of accounting for acquisitions. Under the purchase method of accounting, the costs of an acquisition over the fair value of the net assets acquired is goodwill, which is recorded as an intangible asset on the balance sheet and amortized over a period of years. We generally amortize goodwill on a straight-line basis over a period of 40 years. In addition to the purchase price, the costs of an acquisition generally include expenses relating to the acquisition of the acquired company, including investment banking, legal and accounting fees and severance and facility closing costs.

As part of the process of integrating acquisitions, we also incur costs relating to the restructuring of various aspects of our operations, such as the consolidation of warehouse facilities, customer service centers and sales operations. These costs typically include: costs to exit the facility, such as rent under remaining lease terms, occupancy, relocation costs and facility restoration; employee costs, such as severance; and asset impairment costs. If these costs relate solely to the operations of the acquired company and are anticipated at the time of the acquisition, they are capitalized as part of the acquisition costs. If these costs relate to our existing operations, even if they result from an acquisition, such costs are recorded as restructuring charges in the year they are incurred and have the effect of reducing net income for that year. We expect to incur restructuring costs from time to time in the future as we continue to acquire and integrate companies. Although we believe that the restructuring charges we have taken to date are adequate, we cannot predict the magnitude or timing of restructuring charges that we may take in the future.

School Specialty was incorporated as a wholly owned subsidiary by U.S. Office Products in Delaware in February 1998 to hold its Educational Supplies and Products Division. School Specialty, Inc., a Wisconsin corporation ("Old School") formed in October 1959, was acquired by U.S. Office Products in May 1996. The Re-Print Corp., the predecessor to ClassroomDirect.com, LLC, our wholly owned subsidiary, has been in operation since 1921 and was acquired by U.S. Office Products in July 1996. Our consolidated financial statements give retroactive effect to these two business combinations under the pooling-of-interests method (Old School and The Re-Print Corp. are referred to as the "Pooled Companies") and include the results of companies acquired in business combinations accounted for under the purchase method from their respective dates of acquisition. Prior to their respective dates of acquisition by U.S. Office Products, the Pooled Companies reported results on years ending on December 31. Upon acquisition by U.S. Office Products and effective for fiscal 1997, the Pooled Companies changed their year-ends from

December 31 to conform to U.S. Office Products' fiscal year, which ends on the last Saturday in April. Childcraft, Sax Arts and Crafts and Gresswell were all acquired by U.S. Office Products in 1997 and have been in operation since 1946, 1945 and 1938, respectively.

RESULTS OF OPERATIONS

The following table sets forth certain information as a percentage of revenues on an historical basis concerning our results of operations for the year ended December 31, 1995, the fiscal years ended April 26, 1997 ("fiscal 1997") and April 25, 1998 ("fiscal 1998") and the nine months ended January 24, 1998 ("Interim 1998") and January 23, 1999 ("Interim 1999"), and on a pro forma basis for fiscal 1998 and for Interim 1998 and Interim 1999, reflecting all acquisitions completed through February 9, 1999 (which does not include the SmartStuff acquisition), the spin-off and the refinancing of all amounts payable to U.S. Office Products in connection with the spin-off and the June 1998 initial public offering and concurrent offering to certain officers and directors as if such transactions had occurred on the first day of the period presented.

	HISTORICAL				
	FISCAL YEAR ENDED	FISCAL YEAR ENDED		NINE MONTHS ENDED	
	DECEMBER 31, 1995	APRIL 26, 1997	APRIL 25, 1998	JANUARY 24, 1998	JANUARY 23, 1999
Revenues	100.0%	100.0%	100.0%	100.0%	100.0%
Cost of revenues	65.3	66.2	65.3	66.2	66.3
Gross profit	34.7	33.8	34.7	33.8	33.7
Selling, general and administrative expenses	31.5	27.7	28.3	25.6	25.5
Non-recurring acquisition costs	--	0.9	--	--	--
Restructuring costs	1.7	0.1	1.1	--	1.2
Operating income	1.5	5.1	5.3	8.2	7.0

Interest expense, net......	3.6	2.2	1.8	1.6	2.1
Other (income) expense.....	--	(0.1)	0.1	0.2	--
Income (loss) before provision for income taxes....................	(2.1)	3.0	3.4	6.4	4.9
Provision for (benefit from) income taxes.......	0.1	(1.3)	1.8	2.9	2.4
Net income (loss)..........	(2.2)%	4.3%	1.6%	3.5%	2.5%

	PRO FORMA COMBINED		
	FISCAL YEAR ENDED	NINE MONTHS ENDED	
	APRIL 25, 1998	JANUARY 24, 1998	JANUARY 23, 1999
Revenues..................	100.0%	100.0%	100.0%
Cost of revenues...........	65.3	65.8	65.3
Gross profit............	34.7	34.2	34.7
Selling, general and administrative expenses.................	29.3	27.3	26.3
Non-recurring acquisition costs....................	--	--	--
Restructuring costs........	0.8	0.3	1.1
Operating income.........	4.6	6.6	7.3
Interest expense, net......	2.9	2.7	2.7
Other (income) expense.....	--	0.1	0.1
Income (loss) before provision for income taxes....................	1.7	3.8	4.5
Provision for (benefit from) income taxes.......	1.0	2.2	2.2
Net income (loss)..........	0.7%	1.6%	2.3%

CONSOLIDATED HISTORICAL RESULTS OF OPERATIONS

NINE MONTHS ENDED JANUARY 23, 1999 COMPARED TO NINE MONTHS ENDED JANUARY 24, 1998

Revenues increased 71.2%, from $247.9 million for Interim 1998 to $424.3 million for Interim 1999. This increase was due primarily to the inclusion in Interim 1999 of (1) the revenues of two businesses acquired during Interim 1999 from their respective dates of acquisition and (2) all of the Interim 1999 revenues of eight businesses acquired in Interim 1998 (whose revenues were included in Interim 1998 only from the date of acquisition). Revenues also increased due to sales to new accounts, increased sales to existing customers and higher pricing on certain products in response to increased product costs.

Gross profit increased 70.6%, from $83.8 million in Interim 1998 to $142.9 million in Interim 1999 primarily due to the acquisitions referred to above. Gross margins (gross profit as a percentage of revenues) were essentially flat at 33.8% for Interim 1998 and 33.7% for Interim 1999. Gross margins were reduced by the acquisition of Beckley-Cardy in the second quarter of Interim 1999 (which

had a lower gross margin than our existing businesses) and an increase in lower margin bid revenues in our traditional businesses. These reductions in gross margins were almost entirely offset by the positive impact of increased sales of higher margin specialty products and lower product costs due to higher vendor purchase rebates, which reflected our increased buying power.

Selling, general and administrative expenses (including depreciation and amortization) increased 70.4%, from $63.4 million in Interim 1998 to $108.0

million in Interim 1999 due primarily to the acquisitions referred to above. As a percentage of revenues, these expenses were essentially flat at 25.6% for Interim 1998 and 25.5% for Interim 1999. The decrease in selling, general and administrative expenses as a percentage of revenues resulting from cost savings attributable to the integration of companies acquired during fiscal 1998 and the consolidation of our warehousing under the restructuring plan discussed below were almost offset by increases attributable to the acquisition of Beckley-Cardy in the second quarter of Interim 1999 (which had higher selling, general and administrative expenses as a percentage of revenues than our existing businesses) and higher depreciation and amortization expenses due to the acquisitions referred to above.

Restructuring charges during Interim 1999 included (1) a non-cash restructuring charge of $1.1 million in the first quarter of Interim 1999, consisting of compensation expense attributed to the U.S. Office Products stock option tender offer and the sale of shares of Common Stock to certain officers and directors, net of underwriting discounts and (2) a $4.2 million restructuring charge in the second quarter of Interim 1999 relating to our plan to consolidate our existing warehousing, customer service and sales operations following the acquisition of Beckley-Cardy. Under this restructuring plan, we intend to reduce our distribution centers from 13 to eight and our customer service centers from seven to two during the period from October 1998 through December 1999. The $4.2 million charge consists of $2.1 million for employee severance and termination benefits, $1.3 million for lease termination and facility shut-down costs and $0.8 million for write down of fixed assets and inventories. On an after-tax basis these restructuring charges reduced net income for Interim 1999 by $3.2 million.

Interest expense, net of interest income, increased 121%, from $4.0 million, or 1.6% of revenues, for Interim 1998 to $8.8 million, or 2.1% of revenues, for Interim 1999 primarily due to the increase in debt attributable to the acquisition of the three businesses since January 24, 1998 offset by the reduction in debt from applying the net proceeds from our initial public offering of Common Stock and concurrent offering to certain officers and directors and the forgiveness of debt from U.S. Office Products in connection with the spin-off.

Provision for income taxes increased 41.9% from $7.1 million for Interim 1998 to $10.1 million for Interim 1999, reflecting effective income tax rates of 49% for Interim 1999 and 45% for Interim 1998. The higher effective tax rate, compared to the federal statutory rate of 35%, is primarily due to state income taxes and nondeductible goodwill amortization.

YEAR ENDED APRIL 25, 1998 COMPARED TO YEAR ENDED APRIL 26, 1997

Consolidated revenues increased 61.9%, from $191.7 million in fiscal 1997 to $310.5 million in fiscal 1998. This increase was primarily due to the inclusion of revenues from the eight companies acquired in business combinations accounted for under the purchase method during fiscal 1998 (the "Fiscal 1998 Purchased Companies") from their respective dates of acquisition and revenues from the six companies acquired during fiscal 1997 in business combinations accounted for under the purchase method (the "Fiscal 1997 Purchased Companies" and together with the Fiscal 1998 Purchased Companies, the "Purchased Companies") for the entire period. Revenues also increased due to sales to new accounts, increased sales to existing customers and higher pricing on certain products in response to increased product costs. Product cost is the most

significant element in cost of revenues. Inbound freight, occupancy and delivery charges are also included in cost of revenues.

Gross profit increased 65.8%, from $64.9 million, or 33.8% of revenues, for fiscal 1997 to $107.6 million, or 34.7% of revenues, for fiscal 1998. The increase in gross profit as a percentage of revenues was due primarily to an increase in revenues from higher margin products, primarily as a result of the purchase acquisitions of three companies selling higher margin specialty product lines during fiscal 1998, and as a result of improved purchasing power and rebate programs negotiated with vendors. These factors were partially offset by an increase in the cost of revenues as a result of the increased freight costs caused by the United Parcel Service strike in the summer of 1997 and an increase in the portion of revenues represented by lower margin bid revenues.

Selling, general and administrative expenses include selling expenses (the most significant component of which is sales wages and commissions), catalog costs, occupancy costs, delivery costs, general administrative overhead (which includes information systems and customer service) and accounting, legal, human resources and purchasing expenses. Selling, general and administrative expenses (including depreciation and amortization) increased 65%, from $53.2 million, or 27.7% of revenues, for fiscal 1997 to $87.8 million, or 28.3% of revenues, for fiscal 1998. The increase in selling, general and administrative expenses as a percentage of revenues was due primarily to the purchase acquisition of three specialty companies during fiscal 1998, which typically have higher operating expenses as a percentage of revenue, partially offset by the efficiencies generated from the elimination of certain redundant administrative functions, including purchasing, accounting, finance and information systems, of the Fiscal 1997 Purchased Companies and the consolidation of two warehouses into one regional facility in the Northeastern U.S. during the third quarter of fiscal 1997. We have established a 24-month integration process for acquisitions in which a transition team is assigned to (1) sell or discontinue incompatible business units, (2) reduce the number of stock keeping units, (3) eliminate redundant administrative functions, (4) integrate the acquired entity's management information systems and (5) improve buying power. However, the length of time it takes us to fully implement our strategy for assimilating an acquired company can vary depending on the nature of the company acquired and the season in which it is acquired.

We use grants of employee stock options to provide an incentive to employees by increasing their ownership interests in our shares. This helps to align their interests with the interests of our stockholders. In connection with the spin-off from U.S. Office Products in June 1998, various replacement options were issued at the prior exercise price adjusted for the spin-off in accordance with Accounting Principles Board ("APB") Opinion No. 25. If we had recorded compensation expense based upon the fair market value of the stock options on the dates of grant under the methodology prescribed by Statement of Financial Accounting Standards ("SFAS") No. 123, our net income for the fiscal year ended April 25, 1998 would have been reduced by approximately $0.8 million or 15.3%.

In the fourth quarter of fiscal 1998, we recorded approximately $2.5 million of non-recurring costs, primarily consisting of a write-down of deferred catalog costs, employee severance and asset impairment costs, and $1 million of the transaction costs allocated to us under the distribution agreement entered into with U.S. Office Products and the other spin-off companies. See "Business -- Ongoing Spin-Off Obligations." We incurred non-recurring acquisition costs of $1.8 million in fiscal 1997, in conjunction with the acquisition of the Pooled Companies. These non-recurring acquisition costs included accounting, legal, investment-banking fees, real estate and environmental assessments and appraisals and various regulatory fees. We are required by GAAP to expense all acquisition costs (both those paid by us and those paid by the sellers of the acquired companies) related to business combinations accounted for under

the pooling-of-interests method of accounting. In accordance with GAAP, we will be unable to use the pooling-of-interests method to account for acquisitions for a period of two years from June 9, 1998. During this period, we will not reflect any non-recurring acquisition costs in our results of operations, as all costs incurred of this nature would be related to acquisitions accounted for under the purchase method and would, therefore, be capitalized as a portion of the purchase consideration. See "Risk Factors -- We Are Unable to Use the Pooling-of-Interests Method of Accounting; We Have a Material Amount of Goodwill."

From the time U.S. Office Products acquired the Pooled Companies, we were allocated interest based upon our average outstanding payable balance with U.S. Office Products at U.S. Office Products' weighted average interest rate during such period. Interest expense, net of interest income, increased 28.0%, from $4.2 million for fiscal 1997 to $5.4 million for fiscal 1998. The increase was due primarily to higher amounts payable to U.S. Office Products incurred as a result of the acquisition of the eight companies acquired in fiscal 1998.

Provision for income taxes increased from a tax benefit of $2.4 million for fiscal 1997 to a tax expense of $5.5 million for fiscal 1998. The high effective income tax rate of 51.1% for fiscal 1998, compared to the federal statutory rate of 35%, was primarily due to state income taxes, non-deductible goodwill

amortization and U.S. Office Products share of distribution costs. In 1995, we recorded a valuation allowance of $5.3 million on a deferred tax asset resulting from the net operating loss carryforwards created during 1995. The valuation allowance had been established by one of the Pooled Companies prior to its acquisition by U.S. Office Products to offset the tax benefit from such loss carryforwards, because at the time it was not likely that such tax benefit would be realized. The benefit from income taxes in fiscal 1997 of $2.4 million arose primarily from the reversal of the $5.3 million deferred tax asset valuation allowance in the fourth quarter. The valuation allowance was reversed subsequent to U.S. Office Products acquiring us, because it was deemed "more likely than not," based on improved results, that the tax benefit from such operating loss carryforwards would be realized.

YEAR ENDED APRIL 26, 1997 COMPARED TO YEAR ENDED DECEMBER 31, 1995

Consolidated revenues increased 27.4%, from $150.5 million in 1995 to $191.7 million in fiscal 1997. This increase was primarily due to the inclusion, for fiscal 1997, of revenues from the Fiscal 1997 Purchased Companies from their respective dates of acquisition, sales to new accounts, increased sales to existing customers and higher pricing on certain products in response to increased product costs.

Gross profit increased 24.2%, from $52.2 million, or 34.7% of revenues, in 1995 to $64.9 million, or 33.8% of revenues, in fiscal 1997. The decrease in gross profit as a percentage of revenues was due primarily to a shift in revenue mix, resulting from the acquisition of the Fiscal 1997 Purchased Companies, which traditionally had lower gross profits as a percentage of revenues. This decrease was partially offset by improved purchasing and rebate programs negotiated with vendors and our ability to take advantage of term discounts due to improved cash flows.

Selling, general and administrative expenses increased 12.2%, from $47.4 million, or 31.5% of revenues, in 1995 to $53.2 million, or 27.7% of revenues, in fiscal 1997. The decrease in selling, general and administrative expenses (including depreciation and amortization) as a percentage of revenues was due primarily to the consolidation of two warehouses into one regional facility in the Northeastern U.S. during the third quarter of fiscal 1997, the elimination of certain redundant administrative functions of a company acquired during 1995 in a business combination accounted for under the purchase method (the "1995 Purchased Company") and reduced executive compensation expense at one of the Pooled Companies after being acquired by U.S. Office Products in July 1996.

We use grants of employee stock options to provide an incentive to our employees by increasing their ownership interests in our shares. This helps to align their interests with the interests of our stockholders. In connection with the spin-off from U.S. Office Products in June 1998, various replacement options were issued at their prior exercise price adjusted for the spin-off in accordance with APB Opinion No. 25. If we had recorded compensation expense based upon the fair market value of the stock options on the dates of grant under the methodology prescribed by SFAS No. 123, our income from continuing operations for the fiscal year ended April 26, 1997 would have been reduced by approximately $0.7 million or 9.2%.

We incurred non-recurring acquisition costs of $1.8 million in fiscal 1997, in conjunction with business combinations accounted for under the pooling-of-interests method. These non-recurring acquisition costs included accounting, legal, investment-banking fees, real estate and environmental assessments and appraisals and various regulatory fees.

We incurred restructuring costs of $2.5 million in 1995 and $194,000 in fiscal 1997. These costs represent the external costs and liabilities to close redundant facilities, severance costs related to our employees and other costs associated with our restructuring plans. We expect to incur similar costs in the future as we continue to review our operations, with the intention of continuing to eliminate redundant facilities.

Interest expense, net of interest income, decreased 24.2%, from $5.5 million in 1995 to $4.2 million in fiscal 1997. The decrease was due primarily to the repayment of substantially all of our debt in conjunction with the acquisition of the Pooled Companies by U.S. Office Products and lower interest rates being charged on our short-term and long-term debt with U.S. Office

Products.

Provision for income taxes decreased from a tax expense of $173,000 in 1995 to a tax benefit of $2.4 million in fiscal 1997. We incurred a tax expense in 1995, notwithstanding the fact that we reported a pre-tax loss, because one of the Pooled Companies' earnings were not offset by the other Pooled Companies' loss. In 1995, we recorded a full valuation allowance of $5.3 million on the deferred tax asset resulting from the net operating loss carryforwards created during 1995. The valuation allowance had been established by one of the Pooled Companies prior to its acquisition by U.S. Office Products to offset the tax benefit from such loss carryforwards, because at the time it was not likely that such tax benefit would be realized. The benefit from income taxes in fiscal 1997 of $2.4 million arose primarily from the reversal of the $5.3 million deferred tax asset valuation allowance in the fourth quarter. The valuation allowance was reversed subsequent to U.S. Office Products acquiring us, because it was deemed "more likely than not," based on improved results, that the tax benefit from such operating loss carryforwards would be realized.

PRO FORMA COMBINED RESULTS OF OPERATIONS

The unaudited pro forma combined financial data presented below does not purport to represent the results that we would have obtained had the transactions which are the subject of the pro forma adjustments occurred on April 26, 1997, as assumed, and are not necessarily representative of our results of operations in any future period.

NINE MONTHS ENDED JANUARY 23, 1999 COMPARED TO NINE MONTHS ENDED JANUARY 24, 1998

Pro forma revenues increased 1.9%, from $496.9 million for Interim 1998 to $506.2 million for Interim 1999. This increase was primarily due to sales to new accounts, increased sales to existing customers and higher pricing on certain products in response to increased product costs. These revenue gains were offset by the impact of our acquisition of Education Access and lower revenues at Beckley-Cardy in Interim 1999 resulting from our restructuring of the sales force and reduced bid revenues. Education Access, which we acquired out of a bankruptcy proceeding in March 1998, had

revenues of $4.6 million in Interim 1999 compared to $18.3 million in Interim 1998.

Pro forma gross profit increased 3.3%, from $169.8 million in Interim 1998 to $175.4 million in Interim 1999. Pro forma gross margins increased slightly from 34.2% for Interim 1998 to 34.7% for Interim 1999. This increase was due primarily to a shift in revenue mix to higher margin specialty products and our use of increased buying power to reduce product costs, offset by increased lower margin bid revenues from our traditional businesses.

Pro forma selling, general and administrative expenses (including depreciation and amortization) decreased 1.9%, from $135.6 million in Interim 1998 to $133.0 million in Interim 1999. As a percentage of pro forma revenues, these expenses decreased from 27.3% for Interim 1998 to 26.3% for Interim 1999. The pro forma decrease in selling, general and administrative expenses as a percentage of revenues reflects the elimination of certain redundant expenses at the companies we acquired and integrated in fiscal 1998 and Interim 1999 (including expenses relating to general management, purchasing, accounting, finance and information systems) and the closing of two warehouses during the third quarter of Interim 1999.

Restructuring charges during Interim 1999 included (1) a non-cash restructuring charge of $1.1 million in the first quarter of Interim 1999, consisting of compensation expense attributed to the U.S. Office Products stock option tender offer and the sale of shares of Common Stock to some of our executive management personnel, net of underwriting discounts and (2) a $4.2 million restructuring charge in the second quarter of Interim 1999 relating to our plan to consolidate our existing warehousing, customer service and sales operations following the acquisition of Beckley-Cardy. Under this restructuring plan, we intend to reduce our distribution centers from 13 to eight and our customer service centers from seven to two during the period from October 1998 through December 1999. The $4.2 million charge consists of $2.1 million for employee severance and termination benefits, $1.3 million for lease termination and facility shut-down costs and $0.8 million for write down of fixed assets and

inventories. On an after-tax basis these restructuring charges reduced net income for Interim 1999 by $3.2 million.

A $1.2 million restructuring charge was recorded in Interim 1998 by Beckley-Cardy consisting primarily of compensation and professional services related to a corporate management reorganization.

Provision for income taxes increased 2.7%, from $11 million for Interim 1998 to $11.3 million for Interim 1999, reflecting an effective income tax rate of 58% for Interim 1998 and 49% for Interim 1999. The high effective income tax rate, compared to the federal statutory rate of 35%, was primarily due to non-deductible goodwill amortization and state income taxes.

LIQUIDITY AND CAPITAL RESOURCES

At January 23, 1999, we had working capital of $90.8 million. Our capitalization at January 23, 1999 was $331.6 million and consisted of debt of $172.5 million and stockholders' equity of $159.1 million. On a pro forma basis, at January 23, 1999, we had working capital of $99.3 million and capitalization of $354.6 million, which consisted of debt of $195.6 million and stockholders' equity of $159.1 million. After giving effect to the Common Stock offering, at January 23, 1999, we had working capital of $99.3 million and capitalization of $354.6 million, which consisted of debt of $154.5 million and stockholders' equity of $200.1 million.

We currently have a five year secured $350 million revolving Senior Credit Facility with NationsBank, N.A. The Senior Credit Facility has a $100 million term loan payable quarterly over five years commencing in January 1999 and revolving loans which mature on September 30, 2003. The amount outstanding as of January 23, 1999 under the Senior Credit Facility was approximately $172.5 million, consisting of $72.5 million outstanding under the revolving loan portion of the facility and $100 million outstanding

under the term loan portion of the facility.
Borrowings under the Senior Credit Facility are usually significantly higher during our first and second quarters to meet the working capital needs of our peak selling season. On October 28, 1998, we entered into an interest rate swap agreement with the Bank of New York covering $50 million of the outstanding Senior Credit Facility. The agreement fixes the 30 day LIBOR interest rate at 4.37% per annum (floating LIBOR on January 23, 1999 was 4.94%) on the $50 million notional amount and has a three year term that may be canceled by the Bank of New York on the second anniversary. As of January 23, 1999, the effective interest rate on borrowings under our Senior Credit Facility was approximately 8%. Since the beginning of fiscal 1999, we borrowed under the Senior Credit Facility to fund four acquisitions and for seasonal working capital and capital expenditures. We intend to use the net proceeds from the Common Stock offering to repay amounts outstanding under the revolving credit portion of the Senior Credit Facility. We intend to then reborrow amounts under the Senior Credit Facility for general corporate purposes including working capital, and for acquisitions, subject to compliance with financial covenants. In connection with the Common Stock offering, we intend to change certain financial and other covenants under the Senior Credit Facility. See "Description of Senior Credit Facility."

On June 9, 1998, we sold 2,125,000 shares of Common Stock in a public offering for $30,631,875 in net proceeds. In addition, we sold 250,000 shares of Common Stock in a concurrent offering directly to Daniel P. Spalding, our Chairman of the Board and Chief Executive Officer, David J. Vander Zanden, our President and Chief Operating Officer, and Donald Ray Pate, Jr., our Executive Vice President for ClassroomDirect.com (formerly named Re-Print), at a price of $14.415 per share for aggregate consideration of $3,603,750. In connection with the offerings, we incurred approximately $1,500,000 of expenses. The total net proceeds to us from the offerings were $32,735,625. The net proceeds were used to reduce indebtedness outstanding under our Senior Credit Facility.

During the nine months ended January 23, 1999, net cash provided by operating activities was $29.1 million. This net cash provided by operating activities during the period is indicative of the high seasonal nature of the business, with sales occurring in the first and second quarter of the fiscal year and cash receipts in the second and third quarters. Net cash used in investing activities was $98.8 million, including $95 million for acquisitions

and $3.9 million for additions to property and equipment and other. Net cash provided by financing activities was $69.7 million. Borrowing under the Senior Credit Facility included (1) $16.9 million used to fund the cash portion of the purchase price of the Hammond & Stephens acquisition, (2) $134.7 million used to fund the Beckley-Cardy acquisition consisting of $78.1 million for the cash portion of the purchase price and $56.6 million for debt repayment, (3) $83.3 million used to repay the U.S. Office Products debt in connection with the spin-off and (4) $67.8 million used for short-term funding of seasonal working capital and the purchase of property and equipment. The $32.7 million net proceeds from our initial public offering and concurrent offering to certain officers and directors was used to repay a portion of the $302.7 million borrowed under the Senior Credit Facility. U.S. Office Products contributed capital of $8.1 million as required under the distribution agreement entered into with us in connection with the spin-off.

During the nine months ended January 24, 1998, net cash used in operating activities was $15.4 million. Net cash used in investing activities was $96.5 million, including $92.1 million for acquisitions and $4.1 million for additions to property and equipment and other. Net cash provided by financing activities was $81.1 million, including $89.2 million provided by U.S. Office Products to fund the cash portion of the purchase price and the repayment of debt associated with the Fiscal 1998 Purchased Companies and to fund working capital and the purchase of property and equipment, partially offset by $8 million used to repay indebtedness.

During fiscal 1998, net cash provided by operating activities was $3.7 million. Net cash used in investing activities was $99.7 million, including $95.7 million for acquisitions and $4.1 million for additions to property and equipment and other. Net cash provided by financing activities was $96 million, including $95.7 million provided by U.S. Office Products to fund the cash portion of the purchase price and the repayment of debt assumed with the acquisition of the Fiscal 1998 Purchased Companies, $81.3 million of which was considered a contribution of capital by U.S. Office Products, partially offset by $8.4 million used to repay indebtedness.

During fiscal 1997, net cash provided by operating activities was $918,000. Net cash used in investing activities was $16.7 million, including $7.7 million for acquisitions, $7.2 million for additions to property and equipment and $1.8 million to pay non-recurring acquisition costs. Net cash provided by financing activities was $15.8 million, including $59.9 million provided by U.S. Office Products to fund the cash portion of the purchase price and the repayment of debt associated with the Fiscal 1997 Purchased Companies and the payment of debt of the Pooled Companies, partially offset by $46.9 million used for the net repayment of indebtedness, primarily at the Fiscal 1997 Purchased Companies.

During 1995, net cash provided by operating activities was $4.8 million. Net cash used in investing activities was $6.1 million, including $5.4 million for acquisitions and $881,000 for additions to property and equipment. Net cash provided by financing activities was $1.2 million, including net proceeds from the issuance of debt of $2.4 million and $500,000 received from the issuance of Common Stock, partially offset by payments of indebtedness of $1.5 million.

Our anticipated capital expenditures for the next twelve months is approximately $10 million. The largest items include software development for our Internet initiative, computer hardware and software and warehouse equipment.

We are currently considering, and have hired a nationally known commercial real estate agent to market, a sale and leaseback transaction involving six distribution facilities in Ohio, Massachusetts, Kansas, Texas, Nevada and Illinois. We are currently seeking bids on these properties for such a transaction. We may sell all or any number of these facilities or could substitute other properties we own in this transaction. We believe that the current fair market value for these distribution facilities is approximately $26 million with net proceeds to us of approximately $25 million which would be used to repay outstanding indebtedness under our Senior Credit Facility or for general corporate purposes, including working capital and for acquisitions. If we determine to proceed with this transaction, we expect that it would close in the fourth quarter of fiscal 1999 or the first quarter of fiscal 2000.

FLUCTUATIONS IN QUARTERLY RESULTS OF OPERATIONS

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

Quarterly results also may be materially affected by the timing of acquisitions, the timing and magnitude of costs related to such acquisitions, variations in our costs for the products sold, the mix of products sold and general economic conditions. Moreover, the operating margins of companies we acquired 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 1997 and 1998 and for the nine months ended January 23, 1999 (in thousands). We derived this data from unaudited consolidated financial statements that, in the opinion of our management, reflect all adjustments, consisting only of

normal recurring accruals, necessary for a fair presentation of such quarterly information. Revenues and profitability are significantly higher in the months of May through October, with the most significant portion of revenue and profit occurring in the months of July through September.

	YEAR ENDED APRIL 26, 1997				
	FIRST	SECOND	THIRD	FOURTH	TOTAL
Revenues	$58,991	$ 71,682	$29,304	$31,769	$191,746
Gross profit	19,858	23,435	9,595	11,996	64,884
Operating income (loss)	5,197	6,732	(1,520)	(688)	9,721
Net income (loss)	1,981	2,692	(1,067)	4,526(1)	8,132
Per share amounts:					
Basic	0.21	0.28	(0.11)	0.40	0.81
Diluted	0.21	0.27	(0.11)	0.39	0.80

	YEAR ENDED APRIL 25, 1998				
	FIRST	SECOND	THIRD	FOURTH	TOTAL
Revenues	$87,029	$111,460	$49,391	$62,575	$310,455
Gross profit	30,337	37,225	16,213	23,810	107,585
Operating income (loss)	11,872	12,155	(3,647)	(4,132)	16,248
Net income (loss)	5,804	5,965	(2,934)	(3,596)	5,239
Per share amounts:					
Basic	0.49	0.49	(0.20)	(0.24)	0.40
Diluted	0.48	0.47	(0.20)	(0.24)	0.39

	NINE MONTHS ENDED JANUARY 23, 1999			
	FIRST	SECOND	THIRD	TOTAL
Revenues	$126,657	$212,316	$85,359	$424,332
Gross profit	44,042	70,761	28,093	142,896
Operating income (loss)	13,326	18,674	(2,383)	29,617
Net income (loss)	6,563	7,430	(3,298)	10,695
Per share amounts:				
Basic	0.45	0.51	(0.23)	0.73
Diluted	0.44	0.51	(0.23)	0.73

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(1) For the year ended April 26, 1997, fourth quarter net income was increased by $5.3 million due to the reversal of a deferred tax asset valuation allowance. See Note 3 to "Selected Historical and Pro Forma Financial Data."

INFLATION

We do not believe that inflation has had a material impact on our results of operations during the fiscal years ended April 25, 1998 and April 26, 1997 or the year ended December 31, 1995.

NEW ACCOUNTING PRONOUNCEMENTS

Reporting Comprehensive Income. In June 1997, the Financial Accounting Standards Board ("FASB") issued SFAS No. 130, "Reporting Comprehensive Income." SFAS No. 130 establishes standards for 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 requires that all items that are required to be recognized under accounting standards as components of comprehensive income be reported in a financial statement that is displayed with the same prominence as other financial statements. SFAS No. 130

is effective for fiscal years beginning after December 15, 1997. Reclassification of financial statements for earlier periods provided for comparative purposes is required. We adopted SFAS No. 130 in fiscal 1999. Implementation of this disclosure standard did not affect our financial position or results of operations.

Disclosures About Segments. In June 1997, FASB issued SFAS No. 131, "Disclosures About Segments of an Enterprise and Related Information." SFAS No. 131 establishes standards for the way that public business enterprises report information about operating segments in annual financial statements and requires that those enterprises report selected information about operating segments in interim financial reports issued to shareholders. It also establishes standards for related disclosures about products and services, geographic areas and major customers. SFAS No. 131 is effective for financial statements for fiscal years beginning after December 15, 1997 and will be presented in our Annual Report on Form 10-K for the year ending April 24, 1999. Financial statement disclosures for prior periods are required to be restated. Implementation of this disclosure standard will not affect our financial position or results of operations.

Accounting for the Costs of Computer Software. In March 1998, the American Institute of Certified Public Accountants issued Statement of Position ("SOP") 98-1, "Accounting for the Costs of Computer Software Developed or Obtained for Internal Use." SOP 98-1 requires computer software costs associated with internal use software to be expensed as incurred until certain capitalization criteria are met. We will adopt SOP 98-1 during fiscal 1999. Adoption of SOP 98-1 is not expected to have a material impact on our consolidated financial position or results of operations.

Accounting for Derivative Instruments and Hedging Activities. In June 1998, the FASB issued SFAS No. 133 "Accounting for Derivative Instruments and Hedging Activities." This statement, which is required to be adopted for annual periods beginning after June 15, 1999, establishes standards for recognition and measurement of derivatives and hedging activities. We will implement this statement in fiscal 2001 as required. The adoption of SFAS No. 133 is not expected to have a material effect on our financial position or results of operations.

YEAR 2000

The Year 2000 issue exists because many computer systems and applications, including those embedded in equipment and facilities, use two digit rather than four digit date fields to designate an applicable year. As a result, the systems and applications may not properly recognize the Year 2000 or process data which include it, potentially causing data miscalculations or inaccuracies or operational malfunctions or failures. Because any disruption to our computerized order processing and inventory systems could materially and adversely affect our operations, we have established a centrally managed, company wide plan to identify, evaluate and address Year 2000 issues. Although we expect that most of

our mission critical systems, network elements and products will be verified for Year 2000 compliance by May 1999, our ability to meet this target is dependent upon a variety of factors. In addition, if our suppliers, service providers and/or customers fail to resolve their Year 2000 issues in an effective and timely manner, our business could be significantly and adversely affected. We believe that many of our school customers have not yet addressed or resolved their Year 2000 issues.

We currently estimate that we will incur expenses of approximately $100,000 through 1999 in connection with our anticipated Year 2000 efforts, in addition to approximately $50,000 in expenses incurred through January 23, 1999 for matters historically identified as Year 2000-related. The timing of expenses may vary and is not necessarily indicative of readiness efforts or progress to date. We also expect to incur certain capital improvement costs (totaling approximately $300,000) to support this project. Such capital costs are being incurred sooner than originally planned, but, for the most part, would have been required in the normal

course of business. We expect to fund our Year 2000 efforts through operating cash flows. We will use our Senior Credit Facility for capital improvements related to the effort.

As part of our Year 2000 initiative, we are evaluating scenarios that may occur as a result of the century change and are in the process of developing contingency and business continuity plans tailored for Year 2000-related occurrences. As noted earlier, we are highly reliant on our computer order processing and inventory systems to fill orders, bill the customer and collect payments. A loss of either of these systems would cause long delays in filling and shipping products, billing the customer and collecting accounts receivable. The highly seasonal nature of our business does not allow for any delay in shipping products to customers. Although the seasonal nature of our business would heighten any problems encountered, the timing of the majority of our sales, shipping, billing and collection efforts for fiscal 1999 will be complete prior to the Year 2000. We expect that any unforeseen problems related to Year 2000 issues would be identified within the months of January and February 2000, which is our slowest period. We have identified that we may experience certain inconveniences or inefficiencies as a result of a supplier's failure to remediate its Year 2000 issue. We believe, however, that most of our business will proceed without any significant interruption.

BUSINESS

OVERVIEW OF OUR BUSINESS

We are the largest marketer of non-textbook educational supplies and furniture to schools for pre-kindergarten through twelfth grade. We offer more than 60,000 items through an innovative two-pronged marketing approach that targets both school administrators and individual teachers. Our broad product range enables us to provide our customers with one source for virtually all of their non-textbook school supplies and furniture needs.

We have grown significantly in recent years through both acquisitions and internal growth. In order to expand our geographic presence and product range, we have acquired 19 companies since May 1996. In August 1998, we purchased Beckley-Cardy, our largest traditional and specialty school supply competitor. After giving pro forma effect to the acquisitions that we made during the period (excluding the SmartStuff acquisition), our revenues for the twelve months ended January 23, 1999 were $606.5 million and our operating income before non-recurring acquisition and restructuring costs was $40.2 million, which represented compound annual increases of 48.9% and 70.7%, respectively, compared to our results for the year ended December 31, 1994.

Our "top down" marketing approach targets school administrators at the state, regional and local levels using our 250 sales representatives and our School Specialty and Beckley-Cardy general supply and furniture catalogs. Our "bottom up" approach seeks to reach individual teachers and curriculum specialists primarily through the mailing of our ClassroomDirect.com general

supply catalog (previously known as Re-Print) and our seven different specialty direct catalogs. During 1998, we mailed over 10.2 million catalogs to more than three million teachers and curriculum specialists. Approximately 100 employees assist in the sale, marketing and merchandising of our specialty direct products. We are also exploring various ways in which we can use the Internet to market and sell our products. As the first stage of our Internet initiative, we recently opened a fully integrated e-commerce site under the name "ClassroomDirect.com" which offers over 13,000 items for sale. The second stage of our Internet initiative, which we expect to launch in May 1999, is an education portal in the form of an education mall which will offer our products for sale and also provide a community forum and content aimed at educators.

As of April 1, 1999, we had 2,202 full-time employees in the United States and the United Kingdom, providing service to all 50 states and the United Kingdom. Our principal offices are located at 1000 North Bluemound Drive, Appleton, Wisconsin 54914, and our telephone number is (920) 734-2756. Our world wide general website address is www.schoolspecialty.com. Information contained in any of our websites is not deemed to be a part of this Prospectus.

INDUSTRY OVERVIEW

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

According to the U.S. Department of Education, there are 15,996 school districts, 108,577 public and private elementary and secondary schools and 3.1 million teachers in the United States. School supply procurement decisions are made at the school district level by administrators and curriculum specialists, at the school level by principals and at the classroom level by teachers. Some school supplies are purchased directly from manufacturers while others are purchased through marketing firms such as us. We

estimate that there are over 3,400 marketers of non-textbook school supplies and equipment, the majority of which are family or employee owned businesses that operate in a single geographic region and have annual revenues under $20 million. Besides us, only one other company has a measurable presence in the market. Even so, we believe we have annual revenues that are three times greater than this industry competitor. We believe that the increasing demand for single source suppliers, prompt order fulfillment and competitive prices, and the related need for suppliers to invest in automated inventory and electronic ordering systems, is accelerating the trend toward consolidation in our industry.

The demand for school supplies is driven primarily by the level of the student population and, to a lesser extent, expenditures per student. Student population is a function of demographics, while expenditures per student are also affected by government budgets and the prevailing political and social attitudes towards education. According to U.S. Department of Education estimates, student enrollment in kindergarten through twelfth grade public and private schools began growing in 1986, reaching a record level of 52.7 million students in 1998. Current projections by the U.S. Department of Education indicate that student enrollment will continue to grow to 54.5 million by the year 2006. The U.S. Department of Education also projects that expenditures per student in public elementary and secondary schools will continue to rise through the year 2006. Expenditures of $272.4 billion in 1997 are projected to increase to $340.7 billion by the year 2001. These projected increases in expenditures include a projected increase in total per student spending from $5,961 per student in 1997 to $7,179 by the year 2001. We believe that the current political and social environment is favorable for education spending.

OUR RECENT ACQUISITIONS

-- BECKLEY-CARDY. In August 1998, we acquired The National School Supply Company ("National School Supply"), including its subsidiary Beckley-Cardy, Inc. ("Beckley-Cardy"). Prior to our acquisition of Beckley-Cardy, it was the second

largest general education supply marketer in the industry. We paid $78.1 million in cash and refinanced $56.6 million of its debt with borrowings under our Senior Credit Facility. National School Supply had revenues for the fiscal year ended March 31, 1998 of $176 million.

-- SPORTIME. In February 1999, we acquired Sportime, LLC ("Sportime") from ProTeam.com (formerly known as Genesis Direct, Inc.). Sportime is a leading specialty company focusing on physical education, athletic and recreational products. Sportime offers several targeted catalogs from its early childhood offerings to a catalog focused on physically challenged children. We paid $23 million in cash for Sportime, which we financed through borrowings under our Senior Credit Facility. Sportime had revenues for 1998 of $32.6 million.

-- HAMMOND & STEPHENS. In June 1998, we acquired the business of Hammond & Stephens, Co. ("Hammond & Stephens"), a leading publisher of school forms, such as grade books, record books, teacher planners, student assignment books, school year calendars, awards and similar materials. We paid $16.9 million in cash for Hammond & Stephens, which we financed through borrowings under our Senior Credit Facility. Hammond & Stephens had revenues for the fiscal year ended October 31, 1997 of $9.1 million.

-- SMARTSTUFF. In March 1999, we acquired SmartStuff Development Corporation ("SmartStuff"). SmartStuff is the developer of FoolProof(R) software, a program with an installed customer base of 1.5 million. FoolProof(R) is a desktop software security program which limits access by children to selected programs and applications on desktop computers. We paid $8.0 million for SmartStuff, of which $3.6 million was paid in cash and $4.4 million in shares of Common Stock (an aggregate of 204,778 shares were issued). The cash portion of the purchase price was financed through borrowings under our Senior Credit Facility. SmartStuff had

revenues for 1998 of approximately $4.2 million.

OUR INTERNET INITIATIVE

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

In January 1999, we launched the first phase of our Internet initiative with the opening of our fully integrated e-commerce website ClassroomDirect.com. The site offers access to over 13,000 stock keeping units with digital pictures of most items. Although currently teacher focused, the site could be adapted to a more consumer based format. The increasing demand by school administrators and teachers for more information in making supply decisions, the lack of a wide variety of educational products in stores and the growing importance of convenience make the Internet a viable, low cost channel for the marketing of education supplies.

The second phase of our Internet initiative, which we expect to launch in May 1999, is to offer an education portal on the Internet. This portal will be structured as an education mall offering our products for sale and also provide a community forum and content aimed at educators. We believe that by providing education related content and information, this portal will place us at the education community's decision point for supply and content which will strengthen our brands. We intend to enter into strategic alliances with a number of content providers to help develop and maintain the new website and portal with the goal to become the Internet headquarters for teachers, product specialists and others with an interest in education. Prospective content providers could include media, search engine and Internet service providers and other Internet related companies. Prospective content could include product reviews, teaching tips, education standards and related teaching products, public policy, current events and chat rooms.

In connection with our Internet initiative, we have recently acquired SmartStuff. SmartStuff is expected to introduce Internet browser security and filtering software products for the education market. We intend to market our

brands and Internet services to SmartStuff's existing and future customer base by including links to our website and portal and other promotional materials in SmartStuff product upgrades and new products.

OUR STRENGTHS

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

-- LEADING MARKET POSITION. We have developed our leading market position over our 40 year history by emphasizing high quality products, superior order fulfillment and exceptional customer service. We believe that our annual revenues are three times greater than those of our next largest industry competitor and that our large size and brand recognition have resulted in significant buying power, economies of scale and customer loyalty.

-- BROAD PRODUCT LINE. Our strategy is to provide a full range of high quality products to meet the complete supply needs of schools for pre-kindergarten through twelfth grade. With over 60,000 stock keeping units ranging from classroom supplies and furniture to playground equipment, we provide customers with one source for virtually all of their non-textbook school supply and furniture needs. Our specialty brands enrich our general product offering and create opportunities to cross merchandise our specialty products to

our traditional customers. Specialty brands include the following:

BRAND	PRODUCTS
Childcraft.............	Early childhood
Sax Arts and Crafts....	Art supplies
Frey Scientific........	Science
Sportime...............	Physical education
Education Access.......	Educational software
Brodhead Garrett.......	Industrial arts
Gresswell..............	Library
Hammond & Stephens.....	School forms
SmartStuff.............	Software

-- INNOVATIVE TWO-PRONGED MARKETING APPROACH. School supply procurement decisions are made at the district and school levels by administrators, and at the classroom level by curriculum specialists and teachers. We market to both of these groups, addressing administrative decision makers with a "top down" approach through our 250 person sales force and the School Specialty and Beckley-Cardy general supply and furniture catalogs, and targeting teachers and curriculum specialists with a "bottom up" approach primarily through the mailing of over 10.2 million ClassroomDirect.com general supply catalogs and our seven different specialty direct catalogs each year. We utilize our customer database across our family of catalogs to maximize their effectiveness and increase our marketing reach. We believe our new ClassroomDirect.com Internet site offers additional marketing opportunities.

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

-- ABILITY TO COMPLETE AND INTEGRATE ACQUISITIONS. We have successfully completed the acquisition of 24 companies since 1991, including 19 since May 1996. We have established a 24-month integration process in which a transition team is assigned to:

- sell or discontinue incompatible business units,

- reduce the number of stock keeping units,

- eliminate redundant expenses,

- integrate the acquired entity's management information systems, and

-- exploit buying power.

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

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

-- EXPERIENCED AND INCENTIVISED MANAGEMENT. Our management team provides depth and continuity of experience. Management's interests are aligned with those of our shareholders. Management currently owns approximately 7.6% of our shares of Common Stock on a fully-diluted basis and purchased approximately 1.7% of the currently outstanding shares at the same time as our initial public offering in June 1998.

OUR GROWTH STRATEGY

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

-- AGGRESSIVELY PURSUE ACQUISITIONS. We believe that there are many attractive acquisition opportunities in our highly fragmented industry. As a public company, we have greater access to capital for acquisitions than many of our competitors. We will continue to pursue opportunities that enhance our geographic presence or which complement our specialty direct product offerings. We believe that we can improve the revenues and gross and operating margins of the businesses we acquire through our efficient integration process. Although we are the largest marketer in the industry, our share

of the $6.1 billion non-textbook school supply and furniture market is less than 10%, creating substantial growth opportunities.

-- INCREASE SALES OF SPECIALTY AND PROPRIETARY PRODUCTS. We believe we can increase our margins by selling more specialty direct products and products for which we are the only supplier. We believe that specialty direct products accounted for approximately 42% of our revenues on a pro forma basis for the twelve months ended January 23, 1999, compared to approximately 20% on an historical basis for the year ended December 31, 1994.

-- EXPAND EXISTING TRADITIONAL BUSINESS. We believe that we can also increase the revenues of our traditional business by adding sales representatives in geographic markets in which we are underrepresented and by cross merchandising our specialty products to our traditional customers.

-- IMPROVE PROFITABILITY. We improved our operating margin (as measured by our operating income before non-recurring acquisition and restructuring costs divided by our revenues) from 3.8% in 1994 on an historical basis to 6.6% on a pro forma basis for the twelve months ended January 23, 1999. We believe that we can further improve our operating margins by eliminating redundant expenses of acquired businesses, leveraging our overhead costs, increasing our purchasing power and improving the efficiency of our warehousing and distribution.

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

We believe this strategy can be effective both as an offensive tool, enhancing revenue at a low incremental cost, and as a defensive one, by preventing other existing and prospective Internet competitors from establishing themselves in this market. The establishment of early brand recognition will facilitate the establishment of our educational portal as the key education

related website.

OUR PRODUCT LINES

We market two broad categories of products: general school supplies and specialty products geared towards specific educational disciplines. Our general school supply products are offered to school administrators by our sales force through our School Specialty and Beckley-Cardy catalogs and to teachers and curriculum specialists through direct mailings of our ClassroomDirect.com catalog. Our specialty products are offered to teachers and curriculum specialists through direct mailings of our seven specialty catalogs. Our specialty products enrich our general supply product offering and create opportunities to cross merchandise our specialty school supplies to our traditional customers. With over 60,000 stock keeping units ranging from classroom supplies and furniture to playground equipment, we provide customers with one source for virtually all of their non-textbook school supply and furniture needs.

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

-- SCHOOL SPECIALTY/BECKLEY-CARDY. Through the School Specialty and Beckley-Cardy catalogs, which are targeted to administrative decision makers, we offer a comprehensive selection of classroom supplies, instructional materials, educational games, art supplies, school forms (such as reports, planners and academic calendars), physical education equipment, audio-visual equipment, school furniture and indoor and outdoor equipment. Over the next year, we expect to integrate these two general catalogs. We believe we are the largest school furniture resale source in the United States. We have been granted exclusive franchises for certain furniture lines in specific territories and we enjoy significant purchasing power in open furniture lines.

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

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

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

-- SAX ARTS AND CRAFTS. Sax Arts and Crafts is a leading marketer of art supplies and art instruction materials, including paints, brushes, paper, ceramics, art metals and glass, leather and wood crafts. Sax Arts and Crafts offers customers a toll free "Art Savvy Hotline" staffed with 17 professional artists to respond to customer questions.

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

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

-- EDUCATION ACCESS. Education Access is a reseller of technology solutions for kindergarten through twelfth grade. This product line includes curriculum software, productivity software, peripherals, networking products and other related products and is offered through the ClassroomDirect.com catalog.

-- BRODHEAD GARRETT. Brodhead Garrett is the nation's oldest marketer of industrial arts/technical materials to classrooms. Brodhead Garrett's product line includes such various items as drill presses, sand paper, lathes and

robotic controlled arms.

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

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

-- SMARTSTUFF. SmartStuff is the developer of FoolProof(R) software, a program with an installed customer base of 1.5 million. FoolProof(R) is a desktop software security program which limits access by children to selected programs and applications on desktop computers. SmartStuff is expected to introduce Internet browser security and filtering software products for the education market.

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

OUR SALES AND MARKETING

OUR TWO-PRONGED APPROACH. We believe we have developed a substantially different sales and marketing model from that of

traditional school supply and school furnishings distribution companies in the United States. Our strategy is to use two separate marketing approaches to reach all the prospective purchasers in the school system. Our 250 sales representatives focus on "top down" selling to districts, school purchasing authorities and schools using School Specialty and Beckley-Cardy general supply and furniture catalogs. In addition, approximately 100 employees assist in the sale, marketing and merchandising of our specialty direct products. We also target teachers and curriculum specialists with a "bottom up" approach using our over 10.2 million specialty direct catalogs which are mailed each year and our new "ClassroomDirect.com" Internet e-commerce site.

TRADITIONAL SUPPLY BUSINESS. As part of the integration of Beckley-Cardy into our School Specialty traditional supply business, we restructured our traditional sales and marketing operations from a decentralized regional system to a more centralized national structure. Our national marketing model has 250 sales representatives operating within 15 regions supported by regional managers and two regional customer service and sales support call centers. The reorganization reallocated sales territories, selectively reduced the combined sales and management force and reduced the number of regional customer service/sales support locations from 12 to two. We believe our new national structure significantly improves our effectiveness through better sales management, resulting in higher regional penetration, and achieves significant cost savings through the reduction in number of distribution centers.

We have a broad customer base and no single customer accounted for more than 2% of sales during fiscal 1998 or the nine months ended January 23, 1999. Schools typically purchase school supplies and furniture based on an established relationship with relatively few suppliers. We establish and maintain our relationship with our traditional customers by assigning accounts within a specific geographic territory to a local area sales representative who is supported by a centrally located customer service team. Our customer service representatives call on existing traditional customers frequently to ascertain and fulfill their school supply needs. The representatives maintain contact with these customers throughout the order cycle and assist in processing orders.

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

SPECIALTY DIRECT BUSINESS. We use direct mail catalogs to reach our broader customer base. We distribute seven major specialty direct catalogs, one for each of our Childcraft, Sax Arts and Crafts, Frey Scientific, Sportime, Brodhead Garrett, Gresswell and Hammond & Stephens lines. The catalog distribution calendar is generally the same across all product lines. For each product line, a major catalog containing all product offerings is distributed toward the end of the calendar year so that it is available for school buyers at the beginning of the year. During the year, various catalog supplements are distributed to coincide with the peak school buying season in June through September and following the return of students to school in the fall.

The approximate number of catalogs distributed for our brands for calendar 1998 and projected catalog distribution for calendar 1999 is set out below. The figures set forth below include all books of over 32 pages distributed (or, with respect to 1999, expected to be distributed) during the calendar year.

	1998	1999 (PROJECTED)
School Specialty.........	450,000	600,000
Beckley-Cardy(1).........	400,000	280,000
ClassroomDirect.com (formerly named Re-Print)..............	2,700,000	3,200,000
Childcraft...............	1,900,000	2,400,000
Sax Arts and Crafts......	1,548,500	1,680,000
Frey Scientific..........	168,000	168,000
Sportime.................	2,773,500	2,045,500
Brodhead Garrett.........	82,000	82,000
Gresswell................	130,000	480,000
Hammond & Stephens.......	80,000	80,000
Total..................	10,232,000	11,015,500

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(1) Excludes figures for Beckley-Cardy's early childhood and art catalogs, which are included in the Childcraft and Sax Arts and Crafts' figures, respectively.

PRICING. Pricing for our general and specialty direct product offerings varies by product and channel of distribution. We generally offer a negotiated discount from catalog prices for supplies from our School Specialty and Beckley-Cardy catalogs and respond to quote and bid requests for furniture and equipment. In addition, local sales representatives work with our corporate sales force and school supply buyers to achieve an acceptable pricing structure based upon the mix of products being purchased. The pricing structure of specialty direct products offered through direct marketing is generally not subject to negotiation.

DISTRIBUTION

We distribute products through our distribution centers and place customer orders directly with our suppliers. Furniture is generally shipped directly from the manufacturer to the customer.

We have adopted a plan to rationalize our distribution systems following the Beckley-Cardy acquisition. Under this plan, we will close five of our 13 regional distribution centers and centrally manage the remaining eight. We have currently closed two regional distribution centers and expect to close the remaining three by December 31, 1999. We believe this restructuring will improve our distribution efficiency and generate significant cost savings.

OUR PURCHASING AND INVENTORY MANAGEMENT

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

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

We believe that the primary determinants of customer satisfaction in the educational

supply industry are the completeness and accuracy of shipments received and the timeliness of delivery. We continue to invest in sophisticated computer systems to automate the order taking, inventory allocation and management, and order shipment processes. As a result, we have been able to provide superior order fulfillment to our customers. In addition, we have developed our Order Management System, which allows schools to customize their orders and enter them electronically and provides historical usage reports to schools useful for their budgeting process. While this system currently only accounts for approximately 6% of our traditional supply sales, we believe it will become more significant as schools upgrade their technology and use of computers. During the academic year, we seek to fill orders within 24 hours of receipt of the order at a 95% fill rate and a 99.5% order accuracy rate. During the summer months, we shift to a production environment and schedule shipments to coincide with the start of the school year. During the summer months, our objectives are to meet a 100% fill rate at a 99.5% order accuracy rate. Our average order fill rate for June, July and August 1998 exceeded 97%. We define "fill rate" as the percentage of line items in a customer's order that are initially shipped to the customer in response to the order by the requested ship date.

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

OUR INFORMATION SYSTEMS

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

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

The specialty divisions, including newly acquired companies, use either the

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

Although we have two principal information systems, both the SFD system and MACS integrate general ledger, purchasing and inventory management functions. The software and hardware allow \for continued incremental growth as well as the opportunity to integrate new client-server and other technologies into the information systems. For information on Year 2000 compliance of our information systems, see "Management's Discussion and Analysis of Financial Condition and Results of Operations--Year 2000."

INTERNET CONNECTION WITH OUR SYSTEMS

Our existing ClassroomDirect.com Internet site is fully integrated with MACS and our

education portal is currently being designed
to be fully integrated with both of our systems (i.e., the SFD system and MACS). We intend to install Ironworks Powered Server ("IPS") on our web servers. IPS provides a secured front-end so the customer can place an order using a JAVA-enabled web browser. IPS communicates with the host machine (i.e., the SFD system or MACS) by means of remote procedure calls ("RPC"). The firewall between the web server and the host computers will be configured so that only IPS is permitted to use the RPC to the host gateway.

All of the websites will be navigable through dynamically generated HTML pages, generated either by using the current/extended functionality of IPS or by accessing product information from a relational database generated and synchronized with our information systems in real time. The product images and their descriptions will be maintained in files residing on the web server, synchronized with data in a Centrus system, which is a central repository for all products and data related to those products.

At the check-out stage, new customers will fill out their personal information, billing, shipping and credit card information, and existing customers will enter their user password and/or account number verified through synchronization with our information systems.

OUR COMPETITION

We operate in a highly competitive environment. Our principal competitors are other national and regional marketers of school supplies. We also face increasing competition from non-traditional alternate channel competitors, such as office products contract stationers and superstores. Among traditional school supply marketers, we believe that there is only one other company with a measurable presence in the market. Even so, we believe that we have annual revenues that are three times greater than this competitor and that we compete favorably with this company on the basis of service and price.

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

OUR EMPLOYEES

As of April 1, 1999, we had 2,202 full-time employees, 499 of whom were employed primarily in management and administration, 1,215 in regional warehouse and distribution operations and 488 in marketing, sales, order processing and customer service. To meet the seasonal demands of our customers, we employ many seasonal employees during the late spring and summer seasons. Historically, we have been able to meet our requirements for seasonal employment. As of April 1, 1999, approximately 30 of our employees were members of the Teamsters Labor Union at our Sax Arts and Crafts' New Berlin, Wisconsin facility. We consider

our relations with our employees to be very good.

OUR FACILITIES

Our corporate headquarters are located at 1000 North Bluemound Drive, Appleton, Wisconsin, a combined office and warehouse facility of approximately 120,000 square feet. Our lease on the Appleton headquarters expires on December 31, 2001, although we are currently negotiating with the owners of the facility (consisting of the father and uncle of our Chief Executive Officer, Daniel P. Spalding, and one other unrelated party) to purchase the property sometime prior to the end of June 1999. See "Certain Transactions" for more information. We lease

or own the following additional principal distribution facilities:

LOCATIONS	APPROXIMATE SQUARE FOOTAGE	OWNED/ LEASED	LEASE EXPIRATION
Agawam, Massachusetts	163,300	Owned*	--
Atlanta, Georgia	76,913	Leased	January 6, 2002
Birmingham, Alabama	180,365	Leased	November 30, 2006
Bowling Green, Kentucky	42,000	Leased	June 30, 2001
Carson City, Nevada	80,000	Owned*	--
Fremont, Nebraska	95,000	Leased	June 30, 2003
Fresno, California	18,480	Leased	December 31, 2001
Hoddesdon, England	47,500	Leased	September 24, 2006
Lancaster, Pennsylvania	72,947	Leased	December 31, 2002
Lancaster, Pennsylvania	165,750	Leased	February 28, 2009
Lufkin, Texas	140,000	Owned*	--
Mansfield, Ohio	323,000	Owned*	--
New Berlin, Wisconsin	97,500	Leased	March 31, 2002
Oklahoma City, Oklahoma	37,340	Leased	July 16, 2001
Portland, Oregon	30,456	Leased	May 31, 2001
Salina, Kansas	123,000	Owned*	--
Union City, California	14,494	Leased	April 7, 2000

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* We are currently considering a sale and leaseback transaction involving certain of our owned distribution centers and other properties. See "Management's Discussion and Analysis of Financial Condition and Results of Operations--Liquidity and Capital Resources."

The Lancaster, Pennsylvania facility is used for manufacturing and the Fremont, Nebraska facility is used for production of school forms. In addition, we have 15 sales offices throughout the United States.

We believe that our properties are adequate to support our operations for the foreseeable future. We regularly review the consolidation of our facilities.

OUR LEGAL PROCEEDINGS

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

OUR ONGOING SPIN-OFF OBLIGATIONS

In connection with the spin-off from U.S. Office Products in June 1998, we entered into a series of agreements with U.S. Office Products and the other spin-off companies, including a distribution agreement (the "Distribution Agreement"), a tax allocation agreement (the "Tax Allocation Agreement"), a tax indemnification agreement (the "Tax Indemnification Agreement") and an employee benefits agreement (the "Employee Benefits Agreement"). These agreements have resulted in certain contractual obligations for us.

Under the Distribution Agreement, each spin-off company, including us, will be liable for any liabilities related to its business, its liabilities under the Employee Benefits Agreement, Tax Allocation Agreement and the Tax Indemnification Agreement (each discussed below), federal securities laws liabilities relating generally to U.S. Office Products prior to the distributions and certain other shared liabilities. We estimate that our portion of any shared liabilities under the Distribution Agreement would be

approximately 9.8%. The aggregate of such liabilities for which we may be liable is a maximum of $1.75 million.

We are aware of certain lawsuits filed against U.S. Office Products that could fall within these contractual obligations. See "Risk Factors--We Are Exposed to Risks Related to Other Liabilities of U.S. Office Products."

The Tax Allocation Agreement provides that each spin-off company will jointly and severally indemnify U.S. Office Products for any losses associated with taxes related to the distributions if any of the spin-off companies take an action or fail to take an action that results in the spin-off being taxable (an "Adverse Tax Act"). If any of the spin-off distributions are taxable and none of U.S. Office Products or any of the spin-off companies was responsible, U.S. Office Products and each of the spin-off companies will be liable for its pro rata portion of the distribution taxes based on the value of each company's common stock after the distributions. The Tax Indemnification Agreement provides that the spin-off company that is responsible for the Adverse Tax Act will indemnify the other spin-off companies for any liability to U.S. Office Products under the Tax Allocation Agreement. As a result of these tax agreements, we could become liable for certain amounts of the distribution taxes should there be a finding that any or all of the distributions are taxable. We estimate that our portion of any such taxes would be approximately 14.4%.

The Employee Benefits Agreement provides that the spin-off companies will retain or assume liability for employment-related claims and severance for persons employed or previously employed by the respective spin-off companies and their subsidiaries at the time of the distributions, while U.S. Office Products and its post-distribution subsidiaries will retain or assume responsibility for their current and previous employees.

MANAGEMENT

DIRECTORS AND EXECUTIVE OFFICERS

Our Board of Directors consists of five members. The Board is divided into three classes, with members of each class serving a three year term. The terms of Class I, II and III directors expire at the annual meetings of stockholders in 1999, 2000 and 2001. The following table sets forth certain information about our directors and executive officers as of April 1, 1999:

NAME	AGE	POSITION
Daniel P. Spalding	44	Chairman of the Board and Chief Executive Officer (Class III)
David J. Vander Zanden	44	President, Chief Operating Officer and Director (Class II)
Donald J. Noskowiak	41	Executive Vice President and Chief Financial Officer
Douglas Moskonas	54	Executive Vice President for School Specialty Divisions
Melvin D. Hilbrown	50	Executive Vice President for Gresswell
Richard H. Nagel	58	Executive Vice President for Sax Arts and Crafts
Donald Ray Pate, Jr	36	Executive Vice President for ClassroomDirect.com
Ronald E. Suchodolski	52	Executive Vice President for Childcraft
Jonathan J. Ledecky	41	Director (Class I)
Leo C. McKenna	65	Director (Class III)
Rochelle Lamm Wallach	50	Director (Class II)

DANIEL P. SPALDING became Chairman of the Board and Chief Executive Officer

of School Specialty in February 1998. From 1996 to February 1998, Mr. Spalding served as President of the Educational Supplies and Products Division of U.S. Office Products. From 1988 to 1996, he served as President, Chief Executive Officer and a director of Old School. Prior to 1988, Mr. Spalding was an officer of JanSport, a manufacturer of sports apparel and backpacking equipment. Mr. Spalding was a co-founder of JanSport and served as President and Chief Executive Officer from 1977 to 1984. Mr. Spalding has been a director of the National School Supply and Equipment Association since 1992 and completed his term as the association's Chairman in November 1997.

DAVID J. VANDER ZANDEN became the President and Chief Operating Officer of School Specialty in March 1998. From 1992 to March 1998, he served as President of Ariens Company, a manufacturer of outdoor lawn and garden equipment. Mr. Vander Zanden has served as a director of School Specialty since completion of the spin-off from U.S. Office Products in June 1998.

DONALD J. NOSKOWIAK has served as Chief Financial Officer of School Specialty since 1997. In February 1998, Mr. Noskowiak became an Executive Vice President of School Specialty. He was Vice President, Treasurer and Principal Financial Officer of Old School from 1994 until 1997. From 1992 to 1994, he was the Corporate Controller of Old School.

DOUGLAS MOSKONAS has served as Executive Vice President of School Specialty for School Specialty Divisions since completion of the spin-off from U.S. Office Products in June 1998. Mr. Moskonas joined Old School in 1993 as Vice President of Sales for the Valley Division. He served as General Manager for the Valley Division from 1994 to 1996 and was appointed President of School Specialty Divisions in 1997. Prior to joining School Specialty, Mr. Moskonas served as Vice President of Sales for Emmons-Napp Office Products from 1979 to 1993.

MELVIN D. HILBROWN has served as Executive Vice President of School Specialty for Gresswell since completion of the spin-off from U.S. Office Products in June 1998. Mr. Hilbrown joined School Specialty as Managing Director of Gresswell with School Specialty's acquisition of Don Gresswell, Ltd.

in 1997. He had been Managing Director of Gresswell since 1989.

RICHARD H. NAGEL has served as Executive Vice President of School Specialty for Sax Arts and Crafts since completion of the spin-off from U.S. Office Products in June 1998. Mr. Nagel joined School Specialty with the acquisition of Sax Arts and Crafts in 1997. Mr. Nagel had been with Sax Arts and Crafts since 1975 when he was hired as Assistant General Manager. He was named Vice President/General Manager of Sax Arts and Crafts in 1984 and President of Sax Arts and Crafts in 1990.

DONALD RAY PATE, JR. has served as Executive Vice President of School Specialty for ClassroomDirect.com since completion of the spin-off from U.S. Office Products in June 1998. Mr. Pate joined School Specialty with the acquisition of Re-Print in 1996, having served as President of Re-Print since he acquired it in 1988.

RONALD E. SUCHODOLSKI has served as Executive Vice President of School Specialty for Childcraft since completion of the spin-off from U.S. Office Products in June 1998. Mr. Suchodolski joined School Specialty with the acquisition of Childcraft in 1997. Mr. Suchodolski was Vice President of Childcraft in 1995 and 1996 and was Director of Childcraft's School Division from 1984 to 1989. From 1989 to 1993, Mr. Suchodolski was President of the Judy/Instructo Division of Paramount, and from 1993 to 1995, Mr. Suchodolski served as Senior Vice President of Sales and Marketing for Paramount Publishing's Supplementary Materials Division.

JONATHAN J. LEDECKY has served as a director and an employee of School Specialty since June 1998. He founded Building One Services Corporation (formerly Consolidation Capital Corporation) in February 1997 and serves as its Chairman and Chief Executive Officer. Mr. Ledecky founded U.S. Office Products in October 1994, served as its Chairman of the Board until June 1998 and served as its Chief Executive Officer until November 1997. Mr. Ledecky also serves as a director of Aztec Technology Partners, Inc., Navigant International, Workflow Management, USA Floral Products, UniCapital Corporation and MicroStrategy Corporation. Mr. Ledecky served from 1989 to 1991 as the President of The Legacy

Fund, Inc., and from 1991 to September 1994 as President and Chief Executive Officer of Legacy Dealer Capital Fund, Inc., a wholly-owned subsidiary of Steelcase Inc. Prior to his tenure at The Legacy Fund, Inc., Mr. Ledecky was a partner at Adler and Company and a Senior Vice President at Allied Capital Corporation, an investment management company.

LEO C. MCKENNA has served as a director of School Specialty since completion of the spin-off from U.S. Office Products in June 1998. Mr. McKenna is a self-employed financial consultant working with personal asset management, corporate planning, acquisitions, merger studies and negotiations. Mr. McKenna is currently a director of Life Insurance Company of Boston and New York (Subsidiary of Boston Mutual Life). He is founder and a director of Ledyard National Bank, where he also serves on the Investment Advisory Board and the Trust Committee. He is a director and member of the John Brown Cook Foundation and an overseer and Chairman of the Finance Committee for the Catholic Student Center at Dartmouth College.

ROCHELLE LAMM WALLACH has served as a director of School Specialty since completion of the spin-off from U.S. Office Products in June 1998. Ms. Wallach is Chairman and Chief Executive Officer of Precision Marketing Partners, LLC and The Academy of Financial Services Studies, LLC. Ms. Wallach was associated with Strong Advisory Services, a division of Strong Capital Management, Inc., as its President from 1995 to March 1998. Prior to that time, she was President and the chief operating officer of AAL Capital Management, a mutual fund manager.

COMMITTEES OF THE BOARD

The Audit Committee of the Board of Directors is charged with reviewing our annual audit and meeting with our independent accountants to review our internal controls and financial management practices. The following persons comprise

the Audit Committee: Mr. McKenna and Ms. Wallach.

The Compensation Committee of the Board of Directors is charged with determining the compensation of our executive officers and administering our 1998 Stock Incentive Plan. The following persons comprise the Compensation Committee: Mr. McKenna and Ms. Wallach.

EXECUTIVE COMPENSATION

The following table sets forth information with respect to the compensation paid by us for services rendered during the years ended April 26, 1997 and April 25, 1998 to the Chief Executive Officer and to each of our four other most highly compensated officers (the "Named Officers").

SUMMARY COMPENSATION TABLE

		ANNUAL COMPENSATION		LONG TERM COMPENSATION AWARDS	
NAME AND PRINCIPAL POSITION	YEAR	SALARY($)	BONUS($)	SECURITIES UNDERLYING OPTIONS(#)(1)	ALL OTHER COMPENSATION($)
Daniel P. Spalding	1997	$178,846	--	--	--
Chairman of the Board and CEO	1998	212,104	$34,200	135,484	--
Ronald E. Suchodolski(2)	1997	$141,535	$30,000	--	--
Executive Vice President, Childcraft	1998	157,646	62,633	18,065	--
Richard H. Nagel(2)(3)	1997	$118,000	$29,500	--	$32,000
Executive Vice President, Sax Arts and Crafts	1998	130,660	29,500	18,065	--
Donald Ray Pate, Jr.(2)	1997	$220,901	--	--	--
Executive Vice President, ClassroomDirect.com	1998	117,000	--	--	--
Douglas Moskonas	1997	$ 97,266	$44,500	13,548	--
Executive Vice President, School Specialty Division	1998	139,525	--	18,065	--

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(1) No options to purchase School Specialty Common Stock were granted to the Named Officers during the years shown. Rather, the number of shares set forth in the table represents the number of shares of Common Stock underlying options that the Named Officer would have been granted if all U.S. Office Products options granted during the year were replaced with School Specialty options.

(2) Mr. Suchodolski, Mr. Nagel and Mr. Pate joined School Specialty in May 1997, July 1997 and July 1996, respectively. The compensation information included in this table reflects the compensation received when employed by predecessor companies.

(3) Other compensation refers to Mr. Nagel's automobile allowance and stay-bonus compensation received from his prior employer.

OPTIONS GRANTED IN FISCAL 1999

The following table sets forth certain information regarding options to acquire Common Stock granted to certain executive officers during fiscal 1999.

OPTIONS GRANTED IN FISCAL 1999

NAME	NUMBER OF SECURITIES UNDERLYING OPTIONS GRANTED IN FISCAL 1999(#)			% OF TOTAL OPTIONS GRANTED TO EMPLOYEES IN FISCAL 1999
	REPLACEMENT OPTIONS(1)	NEW OPTIONS(2)	TOTAL	
Daniel P. Spalding.................	104,001	228,519	332,520	14.5%
Ronald E. Suchodolski..............	18,065	45,703	63,768	2.8%
Richard H. Nagel...................	13,867	45,703	59,570	2.6%
Donald Ray Pate, Jr.	--	45,703	45,703	2.0%
Douglas Moskonas...................	24,267	45,703	69,970	3.1%
David J. Vander Zanden.............	--	228,519	228,519	10.0%

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(1) The options granted are non-qualified stock options which replace options that were previously granted by U.S. Office Products. The options were granted by School Specialty on June 10, 1998, have various exercise schedules based on the original date of grant by U.S. Office Products and expire ten years from the original date of grant by U.S. Office Products. The options are exercisable at the market price on the original date of grant by U.S. Office Products, as adjusted by a fraction, the numerator of which is the initial public offering price of School Specialty Common Stock on June 10, 1998 and the denominator of which is the trading price of U.S. Office Products' common stock prior to the spin-off.

(2) The options granted are both qualified and non-qualified stock options, which were granted on June 10, 1998, are exercisable in full on June 10, 1999 at the market price on the date of grant (which was $15.50 per share) and expire on June 10, 2008. The options become fully exercisable upon a change in control, as defined in the 1998 Stock Incentive Plan.

OPTIONS GRANTED IN FISCAL 1998

The following table sets forth certain information regarding options to acquire Common Stock granted to the Named Officers during the year ended April 25, 1998. No options to purchase School Specialty Common Stock were granted to Named Officers during the year. Rather, the number of shares and exercise prices set forth below represent the number of shares of Common Stock underlying options (and the exercise price of options) that the Named Officer would have

been granted if all U.S. Office Products options granted during the year were replaced with School Specialty options.

OPTIONS GRANTED IN LAST FISCAL YEAR

NAME	INDIVIDUAL GRANTS				POTENTIAL REALIZABLE VALUE AT ASSUMED ANNUAL RATES OF STOCK PRICE APPRECIATION FOR OPTION TERM(3)	
	NUMBER OF SECURITIES UNDERLYING OPTIONS GRANTED (#)(1)	% OF TOTAL OPTIONS GRANTED TO EMPLOYEES IN FISCAL YEAR (2)	EXERCISE PRICE ($/SH)(1)	EXPIRATION DATE	5% ($)	10% ($)
Daniel P. Spalding........	135,484	52.7%	$16.80	4/28/07	$1,431,447	$3,626,567
Ronald E. Suchodolski.....	18,065	7.0%	19.93	12/12/07	226,424	573,804
Richard H. Nagel..........	18,065	7.0%	19.93	12/12/07	226,424	573,804
Donald Ray Pate, Jr.......	--	--	--	--	--	--
Douglas Moskonas..........	18,065	7.0%	19.93	12/12/07	226,424	573,804

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(1) The options granted are non-qualified stock options, which are exercisable at the market price on the date of grant, beginning one year from the date of grant in cumulative yearly amounts of 25% of the shares and expire ten years from the date of grant. The options become fully exercisable upon a change in control, as defined in the 1998 Stock Incentive Plan.

(2) Total options granted refers to options to acquire U.S. Office Products common stock given to all employees of the Educational Supplies and Products Division of U.S. Office Products during fiscal 1998.

(3) The dollar amounts under these columns are the results of calculations at assumed annual rates of stock appreciation of 5% and 10%. These assumed rates of growth were selected by the SEC for illustration purposes only. They are not intended to forecast possible future appreciation, if any, of stock prices. No gain to the optionees is possible without an increase in stock prices, which will benefit all stockholders.

OPTION EXERCISES IN FISCAL 1998 AND FISCAL YEAR-END OPTION VALUES

The following table sets forth certain information regarding unexercised options held by the Named Officers at April 25, 1998. No options to purchase School Specialty Common Stock had been granted as of April 25, 1998. Rather, the number of shares set forth below represents the number of shares of Common Stock underlying options that the Named Officer would have held at the end of the year if all U.S. Office Products options held on that date (prior to the U.S. Office Products tender offer (which occurred immediately prior to the spin-off), which allowed holders of U.S. Office Products options to tender a portion of their options to U.S. Office Products for cash) were replaced with School Specialty options.

AGGREGATED OPTION EXERCISES IN LAST FISCAL YEAR AND FISCAL YEAR END OPTION VALUES

NAME	SHARES ACQUIRED ON EXERCISE(#)	VALUE REALIZED ($)	NUMBER SECURITIES UNDERLYING UNEXERCISED OPTIONS AT FY-END (#)		VALUE OF UNEXERCISED IN-THE-MONEY OPTIONS AT FISCAL YEAR END ($) (1)	
			EXERCISABLE	UNEXERCISABLE	EXERCISABLE	UNEXERCISABLE
Daniel P. Spalding........	--	$ --	--	135,484	$ --	N/A
Ronald E. Suchodolski.....	--	--	--	18,065	--	N/A
Richard H. Nagel..........	--	--	--	18,065	--	N/A
Donald Ray Pate, Jr.......	--	--	--	--	--	N/A
Douglas Moskonas..........	--	--	--	31,613	--	N/A

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(1) At the end of fiscal 1998, School Specialty Common Stock was not traded. Therefore, it is not possible to determine the value of unexercised

in-the-money options as of that date.

1998 STOCK INCENTIVE PLAN

The purpose of the Amended and Restated 1998 Stock Incentive Plan (the "Plan") is to promote our long-term growth and profitability. The Plan does this by providing employees, officers and non-employee directors with incentives to improve stockholder value and contribute to our growth and financial success, and by enabling us to attract, retain and reward highly motivated and qualified employees, officers and non-employee directors. The maximum percentage of shares of Common Stock that may be issued with respect to awards granted under the Plan is 20% of the outstanding shares of Common Stock determined immediately after the grant of the award. The maximum number of shares that may be issued with respect to awards granted under the Plan to an individual in a calendar year may not exceed 1.2 million shares. The Plan is administered by the Compensation Committee of the Board of Directors. All employees of School Specialty and its subsidiaries, as well as non-employee directors and officers of School Specialty, are eligible to receive awards under the Plan. The Plan authorizes the Compensation Committee to make awards of stock options, restricted stock and other stock-based awards. The Compensation Committee determines the prices (which may not be less than the fair market value on the date of award), vesting schedules, expiration dates and other material conditions under which such awards may be exercised.

As of June 10, 1998, Mr. Ledecky received options to purchase 914,079 shares of Common Stock under the Plan. The options were intended to compensate Mr. Ledecky for his services to us as an employee. The options have a per share exercise price equal to $15.50. Based on an exercise price of $15.50 and an assumed trading volatility index of the Common Stock of 35%, the estimated value of the options at the date of grant was approximately $2.6 million, net of taxes at an assumed 40%

rate. Mr. Ledecky's options are fully vested when granted but will not be exercisable until June 10, 1999. Mr. Ledecky's options will be exercisable immediately if Mr. Ledecky dies before the options expire or if and to the extent that we accelerate the exercise schedule of substantially all management options. All unexercised portions of options will expire ten years after the date of grant or, if applicable, as of the date Mr. Ledecky violates the non-competition agreement he entered into with us. See "-- Director Compensation and Other Arrangements."

As of June 10, 1998, Daniel P. Spalding and David J. Vander Zanden each received options to purchase 228,519 shares of Common Stock under the Plan. Messrs. Spalding and Vander Zanden's options have the same terms as Mr. Ledecky's options, including an exercise price equal to $15.50. Based on an exercise price of $15.50 and an assumed trading volatility index of the Common Stock of 35%, the estimated value of the options to each of Mr. Spalding and Mr. Vander Zanden at the date of grant was approximately $0.7 million, net of taxes at an assumed 40% rate.

In addition to the foregoing, certain of our executive officers received options to purchase an aggregate of 274,218 shares of Common Stock on June 10, 1998, also at an exercise price of $15.50.

DIRECTOR COMPENSATION AND OTHER ARRANGEMENTS

We granted non-management directors options to purchase 15,000 shares of Common Stock upon their initial election as members of the Board of Directors. We intend to grant options to acquire 5,000 shares of Common Stock for each additional year of service. Non-management directors are paid an annual retainer of $20,000 plus $1,000 for each additional special meeting attended and are reimbursed for all out-of-pocket expenses related to their service as directors.

We entered into an employment agreement with Mr. Ledecky effective as of June 10, 1998 that implemented certain portions of an agreement that Mr. Ledecky had previously entered into with U.S. Office Products (the "Ledecky Services Agreement"). Under the employment agreement, Mr. Ledecky reports to the Board of Directors and senior management of School Specialty. In such capacity, Mr. Ledecky provides high-level acquisition negotiation services and strategic business advice. We can require Mr. Ledecky's performance of such services, consistent with his other contractual obligations to Building One Services

Corporation, U.S. Office Products and the other spin-off companies. As an employee, Mr. Ledecky is subject to our generally applicable personnel policies and is eligible for such benefit plans in accordance with their terms. We pay Mr. Ledecky an annual salary of $48,000 for up to two years. We may terminate Mr. Ledecky's employment for "cause," where cause consists of (1) his conviction of, or guilty or nolo contendere plea to, a felony demonstrably and materially injurious to us or (2) his violation of the non-competition provision as it relates to us.

The Ledecky Services Agreement provides for non-competition and non-solicitation restrictions that continue until the later of June 10, 2000 or one year after Mr. Ledecky leaves our employ. These provisions generally restrict Mr. Ledecky from, among other things, investing in or working for or on behalf of any business selling any products or services in direct competition with U.S. Office Products or the spin-off companies within 100 miles of any location where U.S. Office Products or a spin-off company, as applicable, regularly maintains an office with employees. (For this purpose, "products or services" are those that U.S. Office Products or a spin-off company offered on or before January 13, 1998.) Notwithstanding this prohibition, Mr. Ledecky may serve in a policy making role (but not engage in direct personal competition) with respect to the following businesses: (1) any electrical contracting business that derives more than 50% of its revenues from electrical contracting and maintenance services, without regard to whether the business competes with certain activities of Aztec Technology Partners, Inc.

(one of the spin-off companies) or any of its subsidiaries (collectively, "Aztec"); (2) any business whose revenue from certain activities that compete with Aztec is less than $15 million per year; (3) any business engaged in computer monitoring for facilities management; (4) businesses selling, supplying or distributing janitorial or sanitary products or services; (5) businesses managing or servicing office equipment (other than computers); (6) businesses providing Internet services; (7) UniCapital Corporation's current businesses (which include equipment leasing); or (8) U.S. Marketing Services' shelf-stocking and merchandising and point-of-purchase display creation business. The Ledecky Services Agreement prohibits Mr. Ledecky from trying to hire away our managerial employees or from calling upon our customers to solicit or sell products or services in direct competition with us. Mr. Ledecky also may not hire away for Building One Services Corporation any person then or in the preceding one year employed by us.

EMPLOYMENT CONTRACTS AND RELATED MATTERS

We have entered into employment agreements with Daniel P. Spalding, Donald Ray Pate, Jr., and Richard H. Nagel, each of whom is a Named Officer, and David J. Vander Zanden, an executive officer.

Daniel P. Spalding, Chief Executive Officer of School Specialty, entered into an employment contract with Old School on April 29, 1996 (School Specialty is the successor to this agreement). The contract has an initial term of four years but, unless terminated, is automatically extended at the end of each of the last three years of the initial term for another year. Mr. Spalding receives a base salary of at least $180,000 and participates in an incentive bonus plan which provides for an annual bonus up to 100% of base salary upon the attainment of profit and revenue objectives. Following the termination of his employment for any reason, Mr. Spalding has agreed not to compete with us for a period equal to the longer of two years or, in the case of early termination, the years remaining on his contract. If Mr. Spalding is terminated without cause, as defined in the contract, he is entitled to his entire base salary for the years remaining on the contract. In addition, Mr. Spalding may terminate his contract for good cause (e.g., a material, adverse change in his position or responsibilities or any material breach on our part) or within five days of a change in control of School Specialty. The contract defines a change of control to mean: (1) the acquisition of beneficial ownership of 50% or more of our voting securities by any person other than U.S. Office Products; (2) a loss of majority status by the combination of members of U.S. Office Products' Board of Directors at the time of its initial public offering and any board members installed by a two-thirds vote of the then-present initial directors or any directors subsequently installed by them; (3) any reorganization of U.S. Office Products, unless 75% of the beneficial ownership of U.S. Office Products voting securities remains in the same hands; or (4) U.S. Office Products or more than 49% of its assets are liquidated.

Donald Ray Pate, Jr., President of ClassroomDirect.com, entered into an employment contract with the Re-Print Corporation (now known as ClassroomDirect.com) on July 26, 1996. The contract runs for four years but provides for two automatic one-year extensions unless ClassroomDirect.com gives 60 days written notice of its intent not to renew. Mr. Pate receives an annual base salary of at least $125,000 (although he voluntarily reduced his base salary in 1998). Following the termination of his employment for any reason, Mr. Pate has agreed not to compete with ClassroomDirect.com for the longer of two years or until the end of the contractual term. If Mr. Pate is terminated without cause, he is entitled to receive his base salary for three months or until the end of the initial contractual term, whichever period is greater. Mr. Pate was granted options on June 10, 1998 to purchase 45,703 shares of Common Stock with the same terms as Mr. Ledecky's options, including an exercise price of $15.50. See "--1998 Stock Incentive Plan."

Richard H. Nagel, President of Sax Arts and Crafts, entered into a four-year

employment contract with Sax Arts and Crafts on June 27, 1997. Mr. Nagel receives an annual base salary of at least $125,000, and he participates in an incentive bonus plan based upon the attainment of profit and revenue objectives. Mr. Nagel also entered into a covenant not to compete agreement with Sax Arts and Crafts on June 27, 1997 for which he received consideration of $31,250 from Sax Arts and Crafts. Pursuant to this agreement, following the termination of his employment for any reason, Mr. Nagel has agreed not to compete with Sax Arts and Crafts for one year. If Mr. Nagel is terminated without cause, he is entitled to receive his base salary for one year or until the end of the contractual term, whichever period is lesser. Mr. Nagel was granted options on June 10, 1998 to purchase 45,703 shares of Common Stock with the same terms as Mr. Ledecky's options, including an exercise price of $15.50. See "--1998 Stock Incentive Plan."

David J. Vander Zanden became President and Chief Operating Officer of School Specialty in March 1998. We entered into an employment contract with Mr. Vander Zanden on July 15, 1998. The contract has an initial term of two years, with automatic two-year extensions unless either party gives 90 days written notice of such party's intent not to renew. The employment contract provides for a base salary of $225,000 and participation in an incentive bonus plan based upon the attainment of profit and revenue objectives. The employment contract also contains a covenant not to compete upon termination of the agreement, and provides Mr. Vander Zanden the right to terminate the agreement upon a change of control in School Specialty, as defined in the agreement. Mr. Vander Zanden was granted options on June 10, 1998 to purchase 228,519 shares of Common Stock with the same terms as Mr. Ledecky's options, including an exercise price of $15.50. See "--1998 Stock Incentive Plan."

COMPENSATION COMMITTEE INTERLOCKS AND INSIDER PARTICIPATION

No member of the Compensation Committee has ever been an officer of our company or any of our subsidiaries and none of our executive officers has served on the compensation committee or the board of directors of any company of which any of our directors is an executive officer.

CERTAIN TRANSACTIONS

On April 29, 1996, U.S. Office Products acquired Old School in a business combination accounted for under the pooling-of-interests method in which 576,923 shares (as adjusted for a one-for-four reverse stock split) of U.S. Office Products common stock were issued as consideration. Current officers of School Specialty who received shares of U.S. Office Products common stock in the transaction include Daniel P. Spalding (77,441 shares (as adjusted), and an additional 7,504 shares (as adjusted) through an IRA for his benefit), Michael J. Killoren, a non-executive officer of School Speciality, (6,754 shares (as adjusted)) and Donald J. Noskowiak (6,754 shares (as adjusted)). In addition, John S. Spalding (Daniel P. Spalding's father) received 162 shares (as adjusted) and an additional 15,008 shares (as adjusted) through an IRA for his benefit, the Patricia M. Spalding Revocable Trust received 17,731 shares (as adjusted) (Patricia M. Spalding is Daniel P. Spalding's mother), Joanne Lee Killoren

(Michael J. Killoren's aunt) received 5,076 shares (as adjusted), Donald Killoren (Michael J. Killoren's father) received 15,194 shares (as adjusted) and Leo C. McKenna received 69,501 shares (as adjusted). The other parties to the foregoing transactions had no relationship to School Specialty or U.S. Office Products at the time such transactions were entered into, and accordingly, we believe that these transactions were as favorable as could be negotiated with third parties.

U.S. Office Products acquired ClassroomDirect.com (formerly Re-Print) on July 26, 1996 in a business combination accounted for under the pooling-of-interests method in which it issued 487,500 shares (as adjusted) of U.S. Office Products common stock as consideration. In that transaction, Donald Ray Pate, Jr. received 269,007 shares (as adjusted) of U.S. Office Products common stock for his interest in ClassroomDirect.com. Other shareholders related to Mr. Pate who received shares of U.S. Office Products common stock in the merger were Celita Pate Carmichael (7,560 shares (as adjusted)), Phillip S. Pate (21,338 shares (as adjusted)), Richard K. Pate (18,480 shares (as adjusted)) and Mary K. Pate (29,126 shares (as adjusted)). The other parties to the foregoing transactions had no relationship to School Specialty or U.S. Office Products at the time such transactions were entered into, and accordingly, we believe that these transactions were as favorable as could be negotiated with third parties.

On March 20, 1998, School Specialty acquired substantially all of the assets of the catalog division of Education Access, Inc., a debtor in possession under Chapter 11 of the United States Bankruptcy Code. In this transaction, the secured creditors of Education Access received all of the consideration paid by School Specialty. Lillian R. Kellogg, a former executive officer of School Specialty, owned approximately 40% of the capital stock of Education Access. This transaction was the subject of arm's length negotiation between School Specialty and the secured creditors of Education Access, Inc.

Our main office and warehouse facility, a 120,000 square foot building located in Appleton, Wisconsin, is leased from Bluemound Corporation. John S. Spalding, a former member of the Board of Directors of Old School and the father of Daniel P. Spalding, holds a one-third stake in Bluemound. Donald Killoren, father of Michael J. Killoren, a non-executive officer of School Specialty, also holds a one-third stake in Bluemound. The lease provides for annual payments of $196,000 through December 31, 2001. We believe that this transaction was as favorable as could be negotiated with third parties. We are currently negotiating a transaction to acquire this facility from Bluemound. It is expected that this transaction would be effected at fair market value as determined by an independent appraisal, net of any indebtedness assumed. We believe the net value of any such transaction would be approximately $2 million.

For a discussion of transactions between School Specialty and Mr. Ledecky, see "Management--Director Compensation and Other Arrangements."

PRINCIPAL STOCKHOLDERS

The following table sets forth, as of April 1, 1999 (unless otherwise indicated), the number and percentage of Common Stock beneficially owned by the following persons and as adjusted to give effect to the Common Stock offering: (1) all persons known by us to own beneficially more than 5% of the Common Stock, (2) each director and Named Officer and (3) all directors and executive officers as a group. All persons listed below have sole voting and investment power with respect to their shares, unless otherwise indicated. Except as otherwise indicated, the business address of each of the following is 1000 North Bluemound Drive, Appleton, Wisconsin 54914.

	PRIOR TO THE OFFERING		AFTER THE OFFERING	
NAME AND ADDRESS	NUMBER OF SHARES OWNED	PERCENT OF OUTSTANDING SHARES(5)	NUMBER OF SHARES OWNED	PERCENT OF OUTSTANDING SHARES(6)
Daniel P. Spalding(1)................	183,477	1.2%	183,477	1.0%
Ronald E. Suchodolski(1)............	4,530	*	4,530	*
Richard H. Nagel(1)..................	358	*	358	*

Donald Ray Pate, Jr.(2).............	167,944	1.1%	167,944	*
Douglas Moskonas(1)..................	8,630	*	8,630	*
David J. Vander Zanden...............	50,000	*	50,000	*
Jonathan J. Ledecky..................	--	--	--	--
Leo C. McKenna.......................	6,239	*	6,239	*
Rochelle Lamm Wallach................	1,950	*	1,950	*
All executive officers and directors as a group (11 persons)(1).........	437,286	2.9%	437,286	2.5%
Dresdner RCM Global Investors LLC(3) Dresdner RCM Global Investors US Holdings LLC Dresdner Bank AG Four Embarcadero Center San Francisco, California 94111....	1,084,900	7.3%	1,084,900	6.3%
AXA Conseil Vie Assurance Mutuelle(4) AXA Assurances I.A.R.D. Mutuelle and AXA Assurances Vie Mutuelle AXA Courtage Assurance Mutuelle AXA The Equitable Companies Incorporated 1290 Avenues of the Americas New York, New York 10104...........	768,601	5.2%	768,601	4.5%

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* Less than 1%.

(1) Share amounts include options currently exercisable, or exercisable within 60 days after April 1, 1999, in the amount of 36,259 for Mr. Spalding, 4,516 for Mr. Suchodolski, 318 for Mr. Nagel, 7,330 for Mr. Moskonas and 59,337 for all executive officers and directors as a group.

(2) Mr. Pate has entered into hedging arrangements that place a ceiling and a floor on the price of certain of his shares of Common Stock.

(3) Dresdner RCM Global Investors LLC ("Dresdner RCM"), Dresdner RCM Global Investors US Holdings LLC ("Dresdner RCM Global") and Dresdner Bank AG ("Dresdner Bank") have jointly filed a Schedule 13G with the SEC reporting that they had, as of December 31,

1998, sole voting power over 928,900 shares of Common Stock (including 904,900 shares beneficially owned by Dresdner RCM and Dresdner RCM Global) and sole dispositive power over 1,084,900 (including 1,060,900 shares beneficially owned by Dresdner RCM and Dresdner RCM Global). Dresdner Bank's principal business office is located at Jurgen-Ponto-Platz 1, 60301 Frankfurt, Germany. The principal business address of both Dresdner RCM and Dresdner RCM Global is as indicated in the table.

(4) AXA Conseil Vie Assurance Mutuelle ("AXA Conseil"), AXA Assurances I.A.R.D. Mutuelle ("AXA Assurances"), AXA Assurances Vie Mutuelle ("AXA Assurances Vie"), AXA Courtage Assurance Mutuelle ("AXA Courtage"), AXA ("AXA") and The Equitable Companies Incorporated ("Equitable") have jointly filed a Schedule 13G with the SEC reporting that they had, as of December 31, 1998, sole voting power over 625,000 shares of Common Stock, shared voting power over 139,600 shares of Common Stock and sole dispositive power over 768,601 shares of Common Stock. AXA Conseil's principal business office is located at 100-101 Terrasse Boieldieu, 92042 Paris, La Defense, France; AXA Assurances' principal business office, which is the same as AXA Assurances Vie's principal business office, is located at 21 Rue de Chateaudun, 75009 Paris, France; AXA Courtage's principal business office is located at 25 Rue Louis le Grand, 75002 Paris, France; AXA's principal business office is located at 9 Place Vendome, 75001 Paris, France; and Equitable's principal business address is as indicated in the table.

(5) Based on 14,783,348 shares of Common Stock outstanding as of April 1, 1999.

(6) Based on 17,183,348 shares of Common Stock outstanding after the offering.

DESCRIPTION OF SENIOR CREDIT FACILITY

OVERVIEW

Our Senior Credit Facility is among School Specialty, our subsidiaries, NationsBank, N.A., as administrative agent, Bank One, Wisconsin and U.S. Bank National Association, as documentation agents, and other lending institutions (the "Lenders") named in the Senior Credit Facility. The Senior Credit Facility generally provides for a revolving loan facility of up to $250 million and a term loan in the amount of $100 million, subject to certain covenants and restrictions. In connection with the Common Stock offering, we are negotiating certain changes to the Senior Credit Facility.

Our subsidiaries have jointly and severally guaranteed our obligations under the Senior Credit Facility.

SECURITY

Our indebtedness under the Senior Credit Facility is secured by (1) the pledge of most of the capital stock in all of our subsidiaries and (2) liens on substantially all of our other assets (other than real estate). The Senior Credit Facility contemplates that if the proposed sale leaseback transaction involving our properties does not occur by September 1999, we must provide mortgages on these properties as additional security to the Lenders. See "Management's Discussion and Analysis of Financial Condition and Results of Operations -- Liquidity and Capital Resources" and "Business -- Our Facilities."

INTEREST

Indebtedness under the Senior Credit Facility bears interest at a floating rate based (at our option) on (1) the base rate for base rate loans, plus a margin percentage or (2) LIBOR, plus a margin percentage. The margin percentage varies after the third quarter of fiscal 1999 from 0% to .75% for base rate loans and 1% to 2% for LIBOR loans based on our consolidated leverage ratio. Our consolidated leverage ratio is calculated as of the last day of each fiscal quarter and is the ratio of our funded debt to our operating income before interest, income taxes, depreciation, amortization and non-recurring acquisition and restructuring costs.

On October 28, 1998, we entered into an interest rate swap agreement with the Bank of New York covering $50 million of the outstanding Senior Credit Facility. The agreement fixes the 30 day LIBOR interest rate at 4.37% per annum on the $50 million notional amount and has a three year term that may be canceled by the Bank of New York on the second anniversary.

MATURITY

The revolving Senior Credit Facility matures on September 30, 2003. The term loan amortizes quarterly beginning in January 1999 and requires payments of $10 million in the first year, $15 million in each of the second and third years, and $30 million in each of the fourth and fifth years. Prepayments may be made in whole or in part without penalty, subject to certain minimums. Amounts prepaid may be reborrowed under the revolving facility but not the term facility.

CONDITIONS TO EXTENSIONS OF CREDIT

The obligation of the Lenders to make subsequent loans is subject to the satisfaction of certain customary conditions including, but not limited to, the absence of a default or event of default under the Senior Credit Facility, all representations and warranties under the Senior Credit Facility and the other related loan documents being true and correct in all material respects and that there has been no material adverse change in our properties or business.

COVENANTS

The Senior Credit Facility requires us to meet certain financial tests, including meeting a minimum net worth test and leverage ratio and fixed charge coverage ratio tests. The Senior Credit Facility also contains covenants which, among other things, limit the incurrence of additional indebtedness, the nature of our business, investments, leases of assets, creation and ownership of

subsidiaries, dividends, transactions with affiliates, mergers, consolidations and acquisitions and dispositions of assets, liens and encumbrances and other matters customarily restricted in credit agreements of this type. The Senior Credit Facility also contains additional covenants that require us to maintain our properties, together with insurance thereon, to provide certain information to Nationsbank and the Lenders, including financial statements, notices and reports, to permit inspections of our books and records and to comply with applicable laws.

EVENTS OF DEFAULT

The Senior Credit Facility contains customary events of default, including payment defaults, breach of representations, warranties and covenants (subject to certain cure periods), cross-defaults to certain other indebtedness in excess of $5 million, certain events of bankruptcy and insolvency, judgment defaults in excess of $1 million and the failure of any of the loan documents to be in full force and effect.

AMENDMENT

As noted above, in connection with the Common Stock offering, we are negotiating certain changes to the Senior Credit Facility. These changes include certain changes to the financial and other covenants.

DESCRIPTION OF OUR CAPITAL STOCK

GENERAL

Our authorized capital stock consists of 150,000,000 shares of Common Stock, par value $.001 per share, and 1,000,000 shares of Preferred Stock, par value $.001 per share. As of April 1, 1999, there were 14,783,348 shares of Common Stock outstanding and no shares of Preferred Stock outstanding. All of our currently outstanding shares of Common Stock are validly issued, fully paid and non-assessable, and upon completion of the Common Stock offering, all of our outstanding shares of Common Stock will be validly issued, fully paid and non-assessable under the laws of the State of Delaware, the state in which we are incorporated. We are qualified as a foreign corporation in the State of Wisconsin, and Wisconsin courts have held Section 180.0622(2)(b) of the Wisconsin Business Corporation Law to be applicable to foreign corporations. Under Section 180.0622(2)(b), holders of Common Stock are liable up to the amount equal to the par value of the Common Stock owned by such holder for all debt owing to employees for services performed, but not exceeding six months' service in any one case. Some Wisconsin courts have interpreted "par value" to mean the full amount paid by the holders to purchase the Common Stock.

The following summary of our capital stock is qualified in its entirety by reference to our Restated Certificate of Incorporation (the "Certificate of Incorporation") and Amended and Restated Bylaws (the "Bylaws"), which are incorporated by reference as exhibits to the registration statement of which this Prospectus is a part.

COMMON STOCK

The holders of Common Stock are entitled to one vote for each share on all matters voted upon by stockholders, including the election of directors.

Subject to the rights of any then outstanding shares of Preferred Stock, the holders of Common Stock are entitled to such dividends as may be declared in the discretion of the Board of Directors out of funds legally available therefor. See "Dividend Policy." Holders of Common Stock are entitled to share ratably in our net assets upon liquidation after payment or provision for all liabilities and any preferential liquidation rights of any Preferred Stock then outstanding. Holders of Common Stock have no preemptive rights to purchase shares of our stock. Shares of Common Stock are not subject to any redemption provisions and are not convertible into any other securities of School Specialty.

PREFERRED STOCK

The Board of Directors has the authority from time to time to issue Preferred Stock as shares of one or more classes or series. Subject to the provisions of our Certificate of Incorporation and limitations prescribed by law, the Board of Directors is expressly authorized to adopt resolutions to issue the shares, to fix the number of shares and to change the number of shares constituting any series and to provide for or change the voting powers, designations, preferences and relative, participating, optional or other special rights, qualifications, limitations or restrictions thereof, including dividend rights (including whether dividends are cumulative), dividend rates, terms of redemption (including sinking fund provisions), redemption prices, conversion rights and liquidation preferences of the shares constituting any class or series of the Preferred Stock, in each case without any further action or vote by the stockholders. We have no current plans to issue any shares of Preferred Stock of any class or series.

One of the effects of undesignated Preferred Stock may be to enable the Board of Directors to render more difficult or to discourage an attempt to obtain control of School Specialty by means of a tender offer, proxy contest, merger or otherwise, and thereby to protect the continuity of our management. The issuance of shares of the Preferred Stock pursuant to the Board of Directors' authority described above may adversely affect the rights of the holders of Common Stock. For example, Preferred Stock may rank prior to Common Stock as to dividend rights, liquidation preference or both, may have full or limited voting rights and may

be convertible into shares of Common Stock. Accordingly, the issuance of shares of Preferred Stock may discourage bids for Common Stock or may otherwise adversely affect the market price of Common Stock.

STATUTORY BUSINESS COMBINATION PROVISION

We are subject to the provisions of Section 203 of the Delaware General Corporation Law. Section 203 provides, with certain exceptions, that a Delaware corporation may not engage in any of a broad range of business combinations with a person or an affiliate, or associate of such person, who is an "interested stockholder" for a period of three years from the date that such person became an interested stockholder unless: (1) the transaction resulting in a person becoming an interested stockholder, or the business combination, is approved by the board of directors of the corporation before the person becomes an interested stockholder; (2) the interested stockholder acquired 85% or more of the outstanding voting stock of the corporation in the same transaction that makes such person an interested stockholder (excluding shares owned by persons who are both officers and directors of the corporation, and shares held by certain employee stock ownership plans); or (3) on or after the date the person becomes an interested stockholder, the business combination is approved by the corporation's board of directors and by the holders of at least 66 2/3% of the corporation's outstanding voting stock at an annual or special meeting, excluding shares owned by the interested stockholder. Under Section 203, an "interested stockholder" is defined as any person who is: (1) the owner of 15% or more of the outstanding voting stock of the corporation; or (2) an affiliate or associate of the corporation if such affiliate or associate was the owner of 15% or more of the outstanding voting stock of the corporation at any time within the three-year period immediately prior to the date on which it is sought to be determined whether such person is an interested stockholder.

A corporation may, at its option, exclude itself from the coverage of Section 203 by amending its certificate of incorporation or bylaws, by action of its stockholders, to exempt itself from coverage, provided that such bylaws or certificate of incorporation amendment shall not become effective until 12 months after the date it is adopted. We have not adopted such an amendment to our Certificate of Incorporation or Bylaws. Under our Certificate of Incorporation, the affirmative vote of a majority of the directors is required to approve an interested stockholder transaction except for certain statutory business combinations governed by Section 203, which require the affirmative vote of 66 2/3% of the directors to approve such transactions.

PROVISIONS OF OUR CERTIFICATE OF INCORPORATION AND BYLAWS AFFECTING CHANGE OF CONTROL

The Board of Directors has adopted certain amendments to the Certificate of Incorporation or Bylaws that may provide the Board of Directors with more

negotiating leverage by delaying or making more difficult unsolicited acquisitions or changes of control of School Specialty. We believe that such provisions will enable us to develop our business in a manner that will foster our long-term growth without disruption caused by the threat of a takeover not deemed by the Board of Directors to be in our best interests and the best interests of our stockholders. Such provisions could have the effect of discouraging third parties from making proposals involving an unsolicited acquisition or change of control, although such proposals, if made, might be considered desirable by a majority of our stockholders. Such provisions may also have the effect of making it more difficult for third parties to cause the replacement of our management without concurrence of the Board of Directors. These provisions include: (1) the availability of capital stock for issuance from time to time at the discretion of the Board of Directors (see "-- Preferred Stock" above); (2) the classification of the Board of Directors into three classes, each of which serves for a term of three years; (3) prohibition on stockholders acting by written consent in lieu of a meeting; (4) limitation on stockholders calling a special meeting of stockholders; (5) requirements for advance notice for

raising business or making nominations at stockholders' meetings; and (6) the requirement of a supermajority vote to amend the Bylaws.

CLASSIFIED BOARD. Our Certificate of Incorporation includes provisions dividing the Board of Directors' membership into three classes, each of which serves until the third succeeding annual meeting with one class being elected at each annual meeting of stockholders. Under Delaware law, each class will be as nearly equal in number as possible. As a result, at least two annual meetings of stockholders may be required for our stockholders to change a majority of the members of the Board of Directors. We believe that a classified board of directors will assure continuity and stability of our management and policies, without diminishing accountability to stockholders. A classified Board of Directors will ensure that a majority of directors at any given time will have experience in our business and competitive affairs.

NO STOCKHOLDER ACTION BY WRITTEN CONSENT; SPECIAL MEETINGS. The Certificate of Incorporation and Bylaws provide that stockholder action can be taken only at an annual or special meeting and cannot be taken by written consent in lieu of a meeting. The Certificate of Incorporation and Bylaws also provide that special meetings of the stockholders can be called only by the Chairman of the Board, the Chief Executive Officer, a vote of the majority of the entire board or by holders of at least 33 1/3% of the outstanding shares of our stock entitled to vote generally for the election of directors.

ADVANCE NOTICE FOR RAISING BUSINESS OR MAKING NOMINATIONS AT MEETINGS. The Bylaws establish an advance notice procedure for stockholder proposals to be brought before an annual meeting of stockholders and for nominations by stockholders of candidates for election as directors at an annual or special meeting at which directors are to be elected. Only such business may be conducted at an annual meeting of stockholders as has been brought before the meeting by, or at the direction of, the Board of Directors, or by a stockholder who has given to the Secretary of School Specialty timely written notice, in proper form, of the stockholder's intention to bring that business before the meeting. The chairman of such meeting has the authority to make the determination of whether business has been properly brought before such meeting. Only persons who are nominated by, or at the direction of, the Board, or who are nominated by a stockholder who has given timely written notice, in proper form, to the Secretary prior to a meeting at which directors are to be elected will be eligible for election as directors. These provisions are intended to establish orderly procedures for the conduct of our business and to allow the Board of Directors adequate time to evaluate and respond to stockholder initiatives. They may have the effect of impeding the ability of a stockholder to present proposals or make nominations in a change of control context if the requisite notice provisions cannot be satisfied.

AMENDMENT OF BYLAWS. The Certificate of Incorporation requires a vote of at least 66 2/3% of the outstanding Common Stock for the stockholders to amend the Bylaws. This super-majority requirement could make it more difficult for stockholders to compel the Board of Directors to act by amending the Bylaws to require actions not presently permitted by the Bylaws.

LIMITATION ON DIRECTORS' LIABILITIES

Pursuant to our Certificate of Incorporation and under Delaware law, directors are not liable to us or our stockholders for monetary damages for breach of fiduciary duty, except for liability in connection with a breach of duty of loyalty, for acts or omissions not in good faith or which involve intentional misconduct or a knowing violation of law, for dividend payments or stock repurchases illegal under Delaware law or any transaction in which a director has derived an improper personal benefit.

TRANSFER AGENT AND REGISTRAR

The Transfer Agent and Registrar for the Common Stock is American Stock Transfer and Trust Company.

EXPERTS

The consolidated financial statements of School Specialty as of April 26, 1997 and April 25, 1998, for the four months ended April 30, 1996 and for the years ended April 26, 1997 and April 25, 1998, included in this Prospectus, have been so included in reliance on the report of PricewaterhouseCoopers LLP, independent accountants, given on the authority of said firm as experts in auditing and accounting.

The consolidated financial statements of School Specialty for the year ended December 31, 1995, included in this Prospectus, except as they relate to The Re-Print Corporation for the year ended December 31, 1995, have been so included in reliance on the February 2, 1996 report of Ernst & Young LLP, independent accountants, given on the authority of said firm as experts in auditing and accounting. Insofar as the consolidated financial statements for the year ended December 31, 1995 relate to The Re-Print Corporation, such financial statements have been audited by BDO Seidman, LLP, independent accountants, whose report dated February 8, 1996 thereon appears herein.

The consolidated financial statements of American Academic Suppliers Holding Corporation and Subsidiary as of December 31, 1995 and December 31, 1996 and for the years then ended, included in this Prospectus, have been so included in reliance on the February 24, 1997 report of Altschuler, Melvoin and Glasser LLP, independent accountants, given on the authority of said firm as experts in auditing and accounting. We have agreed to indemnify and advance costs and expenses for Altschuler, Melvoin and Glasser LLP for legal costs and expenses incurred in connection with a successful defense relating to any litigation arising from this offering (i.e., a defense in which Altschuler, Melvoin and Glasser LLP is neither decreed to have been culpable nor pays any part of the plaintiff's damages as a result of judgment or settlement (except as agreed by Altschuler, Melvoin and Glasser LLP)). This indemnification will be void if Altschuler, Melvoin and Glasser LLP is found liable of professional malpractice.

The consolidated financial statements of Sax Arts and Crafts, Inc. as of December 16, 1995 and December 25, 1996, and for the three years in the period ended December 25, 1996, included in this Prospectus, have been so included in reliance on the report of PricewaterhouseCoopers LLP, independent accountants, given on the authority of said firm as experts in auditing and accounting.

Ernst & Young LLP, independent auditors, have audited the consolidated financial statements of the National School Supply Company as of March 31, 1998 and March 31, 1997, and for each of the three years in the period ended March 31, 1998, included in this Prospectus and registration statement, as set forth in their report, which is included elsewhere in this Prospectus and registration statement. The consolidated financial statements of The National School Supply Company are included in reliance on their report, given on their authority as experts in accounting and auditing.

The financial statements of Hammond & Stephens Company as of and for the year ended October 31, 1997, included in the Prospectus, have been so included in reliance on the report of PricewaterhouseCoopers LLP, independent accountants, given on the authority of said firm as experts in auditing and accounting.

VALIDITY OF SHARES

The validity of the shares of Common Stock offered hereby will be passed

upon on behalf of School Specialty by Godfrey & Kahn, S.C., Milwaukee, Wisconsin, and on behalf of the Underwriters by Sullivan & Cromwell, New York, New York.

ADDITIONAL INFORMATION

We have filed with the SEC a registration statement on Form S-1 (including exhibits, schedules and amendments thereto) pursuant to the Securities Act with respect to the Common Stock offering. This Prospectus, while forming a part of the registration statement, does not contain all of the information set forth in the registration statement. Reference is made to the registration statement and the exhibits thereto for further information. Statements contained in this Prospectus concerning the provisions of documents filed as exhibits to the registration statement are necessarily summaries of such documents, and each such statement is qualified in its entirety by reference to the copy of the applicable document filed with the SEC.

The registration statement and the exhibits thereto are available for inspection and copying at the public reference facilities maintained by the SEC at Room 1024, 450 Fifth Street, N.W., Washington, D.C. 20549, as well as the regional offices of the SEC at Northwestern Atrium Center, 500 West Madison Street, Suite 1400, Chicago, Illinois 60661 and 7 World Trade Center, Suite 1300, New York, New York 10048. Copies of such information can also be obtained at prescribed rates by writing to the SEC's Public Reference Section at 450 Fifth Street, N.W., Washington, D.C. 20549. Please call the SEC at 1-800-SEC-0330 for information relating to the operation of the Public Reference Section. Such information may also be accessed electronically by means of the SEC's website on the Internet at http://www.sec.gov.

We are subject to the reporting requirements of the Securities Exchange Act of 1934, as amended, and, in accordance therewith, file annual and quarterly reports, proxy statements and other information with the SEC. Such periodic reports, proxy statements and other information can be inspected and copied at the SEC's public reference facilities referred to above. Copies of such material can be obtained by mail at prescribed rates by writing to the SEC's Public Reference Section at the address referred to above or by calling the SEC at the toll-free telephone number noted above. In addition, reports, proxy statements and other information concerning School Specialty may be inspected at the offices of the National Association of Securities Dealers, Inc., 1735 K Street, NW, Washington, D.C. 20006.

We furnish to our stockholders annual reports containing audited consolidated financial statements examined by our independent public accountants and quarterly reports containing unaudited consolidated financial statements for each of the first three fiscal quarters of each fiscal year.

SCHOOL SPECIALTY, INC.

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REPORT OF INDEPENDENT ACCOUNTANTS

To the Board of Directors
of School Specialty, Inc.

In our opinion, the accompanying consolidated balance sheet and the related consolidated statements of operations, of stockholders' equity and of cash flows present fairly, in all material respects, the financial position of School Specialty, Inc. (the "Company") and its subsidiaries at April 25, 1998 and April 26, 1997, and the results of their operations and their cash flows for the four months ended April 30, 1996 and the fiscal years ended April 26, 1997 and April 25, 1998, in conformity with generally accepted accounting principles. These financial statements are the responsibility of the Company's management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with generally accepted auditing standards which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for the opinion expressed above.

PRICEWATERHOUSECOOPERS LLP

Minneapolis, Minnesota
June 24, 1998

REPORT OF ERNST & YOUNG LLP, INDEPENDENT AUDITORS

Board of Directors
School Specialty, Inc.

We have audited the accompanying consolidated statement of operations and cash flows of School Specialty, Inc. (the "Company") for the year ended December 31, 1995. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits. We did not audit the financial statements of Re-Print Corporation, a wholly owned subsidiary, which statements reflect total revenues of $30,798,000 for the year ended December 31, 1995. Those statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to data included for Re-Print Corporation, is based solely on the report of the other auditors.

We conducted our audit in accordance with generally accepted auditing standards. 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 audit provides a reasonable basis for our opinion.

In our opinion, based on our audit and report of other auditors, the financial statements referred to above present fairly, in all material respects, the results of the Company's operations and its cash flows for the year December 31, 1995, in conformity with generally accepted accounting principles.

ERNST & YOUNG LLP

Milwaukee, Wisconsin
February 2, 1996

REPORT OF INDEPENDENT AUDITORS

Board of Directors
The Re-Print Corporation
Birmingham, Alabama

We have audited the accompanying balance sheet of The Re-Print Corporation as of December 31, 1995, and the related statements of income, stockholders' equity, and cash flows for the year ended December 31, 1995 (not presented separately herein). These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. 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 audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The Re-Print Corporation at December 31, 1995, and the results of its operations and its cash flows for the year then ended, in conformity with generally accepted accounting principles.

BDO Seidman, LLP

Atlanta, Georgia
February 8, 1996

SCHOOL SPECIALTY, INC.

CONSOLIDATED BALANCE SHEET
(IN THOUSANDS, EXCEPT SHARE AMOUNTS)

	APRIL 26, 1997	APRIL 25, 1998	JANUARY 23, 1999
			(UNAUDITED)
ASSETS			
Current assets:			
Cash and cash equivalents	$ --	$ --	$ --
Accounts receivable, less allowance for doubtful accounts of $471, $716 and $1,778, respectively	17,232	38,719	84,843
Inventories	24,461	49,307	46,799
Prepaid expenses and other current assets	10,331	13,503	16,219
Total current assets	52,024	101,529	147,861
Property and equipment, net	14,478	22,553	39,781
Intangible assets, net	20,824	99,613	183,693
Other assets	359	34	7,178
Total assets	$ 87,685	$223,729	$378,513
LIABILITIES AND STOCKHOLDERS' EQUITY			
Current liabilities:			
Short-term debt	$ 262	$ 11	$ 10,314
Short-term payable to U.S. Office Products	26,692	20,277	--
Accounts payable	9,091	23,788	15,485
Accrued compensation	860	4,458	11,945
Accrued income taxes	--	--	5,596
Accrued restructuring	151	472	3,638
Other accrued liabilities	477	4,732	10,057
Total current liabilities	37,533	53,738	57,035
Long-term debt	566	315	162,199
Long-term payable to U.S. Office Products	33,226	62,699	--
Other	31	511	212
Total liabilities	71,356	117,263	219,446
Commitments and contingencies			
Stockholders' equity:			
Preferred Stock, $0.001 par value per share, 1,000,000 shares authorized; none outstanding	--	--	--
Common Stock, $0.001 par value per share, 150,000,000 shares authorized and 14,578,925 shares issued and outstanding (unaudited)	--	--	15
Capital paid in excess of par value	--	--	146,768
Divisional equity	19,985	104,883	--
Accumulated other comprehensive income	--	--	6
Retained earnings (deficit)	(3,656)	1,583	12,278
Total stockholders' equity	16,329	106,466	159,067
Total liabilities and stockholders' equity	$ 87,685	$223,729	$378,513

See accompanying notes to consolidated financial statements.

SCHOOL SPECIALTY, INC.

CONSOLIDATED STATEMENT OF OPERATIONS
(IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

YEAR ENDED DECEMBER 31, 1995	FOUR MONTHS ENDED APRIL 30, 1996	FISCAL YEAR ENDED APRIL 26, 1997	FISCAL YEAR ENDED APRIL 25, 1998	NINE MONTHS ENDED JANUARY 24, 1998	NINE MONTHS ENDED JANUARY 23, 1999

					(UNAUDITED)	
Revenues................	$150,482	$28,616	$191,746	$310,455	$247,880	$424,332
Cost of revenues.........	98,233	18,591	126,862	202,870	164,105	281,436
Gross profit...........	52,249	10,025	64,884	107,585	83,775	142,896
Selling, general and administrative expenses...............	47,393	11,917	53,177	87,846	63,395	108,005
Restructuring costs......	2,532	--	194	2,491	--	4,200
Strategic restructuring costs..................	--	--	--	1,000	--	1,074
Non-recurring acquisition costs..................	--	1,122	1,792	--	--	--
Operating income (loss)..............	2,324	(3,014)	9,721	16,248	20,380	29,617
Other (income) expense:						
Interest expense.......	5,536	1,461	4,197	5,505	4,100	8,942
Interest income........	--	(6)	--	(132)	(109)	(114)
Other....................	(18)	67	(196)	156	441	--
Income (loss) before provision for (benefit from) income taxes.....	(3,194)	(4,536)	5,720	10,719	15,948	20,789
Provision for (benefit from) income taxes.....	173	139	(2,412)	5,480	7,113	10,094
Net income (loss)........	$ (3,367)	$(4,675)	$ 8,132	$ 5,239	$ 8,835	$ 10,695
Weighted average shares outstanding:						
Basic..................	6,562	8,611	10,003	13,284	12,751	14,625
Diluted................	6,669	8,789	10,196	13,547	13,020	14,665
Net income (loss) per share:						
Basic..................	$ (0.51)	$ (0.54)	$ 0.81	$ 0.40	$ 0.69	$ 0.73
Diluted................	$ (0.50)	$ (0.53)	$ 0.80	$ 0.39	$ 0.68	$ 0.73

See accompanying notes to consolidated financial statements.

SCHOOL SPECIALTY, INC.

CONSOLIDATED STATEMENT OF STOCKHOLDERS' (DEFICIT) EQUITY (IN THOUSANDS)

	COMMON STOCK		CAPITAL PAID IN EXCESS OF PAR VALUE	DIVISIONAL EQUITY	ACCUMULATED OTHER COMPREHENSIVE INCOME	RETAINED (DEFICIT) EARNINGS	STOCKHOLDER'S (DEFICIT) EQUITY	TOTAL COMPREHENSIVE INCOME (LOSS)
	SHARES	DOLLARS						
Balance at December 31, 1994....................	--	--	--	$ 5,327	--	$(3,500)	$ 1,827	
Transactions of Pooled Companies:								
Issuance of warrants............	--	--	--	672	--	--	672	
Issuance of Pooled Company common stock for cash............	--	--	--	500	--	--	500	
Repurchase of treasury stock...............	--	--	--	(92)	--	--	(92)	
Cash dividends declared and paid...	--	--	--	--	--	(160)	(160)	
Net loss................	--	--	--	--	--	(3,367)	(3,367)	(3,367)
Total comprehensive income..........								(3,367)
Balance at December 31, 1995....................	--	--	--	6,407	--	(7,027)	(620)	
Transactions of Pooled Companies:								
Exercise of warrants............	--	--	--	1,080	--	--	1,080	
Cash dividends declared and paid...	--	--	--	--	--	(52)	(52)	
Net loss................	--	--	--	--	--	(4,675)	(4,675)	(4,675)
Total comprehensive income..........								(4,675)
Balance at April 30, 1996....................	--	--	--	7,487	--	(11,754)	(4,267)	
Transactions of Pooled Companies:								
Exercise of warrants and stock options...	--	--	--	1,979	--	--	1,979	
Retirement of treasury stock...............	--	--	--	34	--	(34)	--	
Issuances of U.S. Office Products Company common stock in conjunction with								

acquisitions..........	--	--	--	10,485	--	--	10,485	
Net income..............	--	--	--	--	--	8,132	8,132	8,132
Total comprehensive income..........								8,132
Balance at April 26, 1997....................	--	--	--	19,985	--	(3,656)	16,329	
Issuances of U.S. Office Products Company common stock in conjunction with acquisitions..........	--	--	--	3,566	--	--	3,566	
Capital contribution by U.S. Office Products..............	--	--	--	81,332	--	--	81,332	
Net income..............	--	--	--	--	--	5,239	5,239	5,239
Total comprehensive income..........								5,239
Balance at April 25, 1998....................	--	--	--	104,883	--	1,583	106,466	
Unaudited data:								
Shares distributed in spin off from U.S. Office Products.......	12,204	12	104,867	(104,883)	4	--	--	
Shares issued in June 1998..................	2,375	3	32,732	--	--	--	32,735	
Capital contribution by U.S. Office Products..............	--	--	8,095	--	--	--	8,095	
Compensation expense from office stock purchase..............	--	--	1,074	--	--	--	1,074	
Cumulative translation adjustment............	--	--	--	--	2	--	2	$ 2
Net Income..............	--	--	--	--	--	10,695	10,695	10,695
Total comprehensive income..........								$10,697
Balance at January 23, 1999 (unaudited)........	14,579	$ 15	$146,768	$ --	$ 6	$12,278	$159,067	

See accompanying notes to consolidated financial statements.

SCHOOL SPECIALTY, INC.
CONSOLIDATED STATEMENT OF CASH FLOWS
(IN THOUSANDS)

	YEAR ENDED DECEMBER 31, 1995	FOUR MONTHS ENDED APRIL 30, 1996	FISCAL YEAR ENDED APRIL 26, 1997	FISCAL YEAR ENDED APRIL 25, 1998	NINE MONTHS ENDED JANUARY 24, 1998 (UNAUDITED)	NINE MONTHS ENDED JANUARY 23, 1999 (UNAUDITED)
Cash flows from operating activities:						
Net income (loss)..........................	$(3,367)	$(4,675)	$ 8,132	$ 5,239	$ 8,835	$ 10,695
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:						
Depreciation and amortization expense..............................	2,927	674	2,106	4,561	3,382	6,607
Non-recurring acquisition costs........	--	1,122	1,792	--	--	--
Restructuring costs....................	2,532	--	194	2,491	--	5,274
Strategic restructuring costs..........	--	--	--	1,000	--	--
Amortization of loan fees.............						420
Other..................................	277	118	115	78	43	--
Change in current assets and liabilities (net of assets acquired and liabilities assumed in business combinations accounted for under the purchase method):						
Accounts receivable................	2,666	3,727	1,277	(3,586)	(6,450)	(1,971)
Inventory..........................	(2,523)	(4,376)	2,737	(6,666)	9,590	27,208
Prepaid expenses and other current assets...........................	(338)	(443)	(2,361)	(717)	3,844	1,722
Accounts payable...................	2,642	3,459	(6,969)	5,256	(6,593)	(31,924)
Accrued liabilities................	12	(784)	(6,105)	(3,932)	2,741	11,069
Net cash provided by (used in) operating activities.........	4,828	(1,178)	918	3,724	15,392	29,100
Cash flows from investing activities:						
Cash paid in acquisitions, net of cash received................................	(5,389)	--	(7,734)	(95,670)	(92,076)	(95,030)
Additions to property and equipment, net of disposals................................	(881)	(120)	(7,216)	(3,558)	(4,095)	(3,978)
Other.....................................	178	414		(514)	(366)	171
Payments of non-recurring acquisition costs...................................	--	(1,122)	(1,792)	--	--	--

Net cash used in investing activities	(6,092)	(828)	(16,742)	(99,742)	(96,537)	(98,837)
Cash flows from financing activities:						
Payments of long-term debt	(1,488)	(194)	(16,962)	(6,270)	(6,200)	(187,857)
Proceeds from (payments of) short-term debt, net	655	1,263	(29,908)	(2,102)	(1,841)	(20,277)
Advances from (repayments to) U.S. Office Products Company	--	--	59,919	23,058	19,424	(62,699)
Capital contribution by U.S. Office Products	--	--	--	81,332	69,762	8,095
Proceeds from issuance of common stock	500	1,080	1,979	--	--	32,735
Proceeds from issuance of long-term debt	1,715	--	750	--	--	302,700
Capitalized loan fees	--	--	--	--	--	(2,960)
Payments of dividends at Pooled Companies	(134)	(138)	--	--	--	--
Purchase of treasury stock at Pooled Company	(92)	--	--	--	--	--
Net cash provided by financing activities	1,156	2,011	15,778	96,018	81,145	69,737
Net increase (decrease) in cash and cash equivalents	(108)	5	(46)	--	--	--
Cash and cash equivalents at beginning of period	149	41	46	--	--	--
Cash and cash equivalents at end of period	$ 41	$ 46	$ --	$ --	$ --	$ --
Supplemental disclosures of cash flow information:						
Interest paid	$ 5,564	$ 1,461	$ 456	$ 35	$ 27	$ 7,153
Income taxes paid (refunded)	$ 9	$ (3)	$ (132)	$ 1,148	$ --	$ 3,429

See accompanying notes to consolidated financial statements.

SCHOOL SPECIALTY, INC.

CONSOLIDATED STATEMENT OF CASH FLOWS (CONTINUED)
(IN THOUSANDS)

The Company issued common stock and cash in connection with certain business combinations accounted for under the purchase method in the year ended December 31, 1995, the fiscal years ended April 26, 1997 and April 25, 1998 and the nine months ended January 24, 1998 and January 23, 1999. The fair values of the assets and liabilities of the acquired companies at the dates of the acquisitions are presented as follows:

	YEAR ENDED	FISCAL YEAR ENDED		FOR THE NINE MONTHS ENDED	
	DECEMBER 31, 1995	APRIL 26, 1997	APRIL 25, 1998	JANUARY 24, 1998	JANUARY 23, 1999
				(UNAUDITED)	
Accounts receivable	$1,589	$ 5,381	$17,900	$17,848	$ 44,153
Inventories	1,823	6,922	18,180	18,075	24,701
Prepaid expenses and other current assets	502	2,371	2,431	2,431	3,251
Property and equipment	4,536	1,155	6,379	6,667	17,312
Intangible assets	3,268	14,248	80,359	74,741	85,312
Other assets	156	29	346	210	7,223
Short-term debt	(191)	(4,283)	(1,850)	(1,850)	--
Accounts payable	(274)	(4,012)	(9,400)	(9,410)	(23,621)
Accrued liabilities	(225)	(1,846)	(9,089)	(7,050)	(6,303)
Long-term debt	(5,795)	(1,746)	(6,020)	(6,020)	(56,998)
Net assets acquired	$5,389	$18,219	$99,236	$95,642	$ 95,030
The acquisitions were funded as follows:					
U.S. Office Products common stock	$ --	$10,485	$ 3,566	$ 3,566	$ --
Cash paid, net of cash acquired	5,389	7,734	95,670	92,076	95,030
Total	$5,389	$18,219	$99,236	$95,642	$ 95,030

See accompanying notes to consolidated financial statements.

SCHOOL SPECIALTY, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(DOLLARS IN THOUSANDS EXCEPT PER SHARE AMOUNTS)

NOTE 1 -- BACKGROUND

School Specialty, Inc. (the "Company") is a Delaware corporation which was a wholly owned subsidiary of U.S. Office Products Company ("U.S. Office Products") at April 25, 1998. On June 9, 1998, U.S. Office Products spun-off its Educational Supplies and Products Division (the "Education Division") as an independent publicly owned company. This transaction was effected through the distribution of shares of the Company to U.S. Office Products' shareholders (the "Distribution"). Prior to the Distribution, U.S. Office Products contributed its equity interests in certain wholly owned subsidiaries associated with the Education Division to the Company. U.S. Office Products and the Company entered into a number of agreements to facilitate the Distribution and the transition of the Company to an independent business enterprise. Additionally, concurrently with the Distribution, the Company sold 2.125 million shares in an initial public offering (the "IPO") and 250,000 shares in a private placement to certain of its officers and directors.

The Education Division was created by U.S. Office Products in May 1996 in connection with the acquisition of School Specialty, Inc., a Wisconsin corporation ("Old School"). This business combination and the acquisition in July 1996 of The Re-Print Corp. ("Re-Print") (now known as ClassroomDirect.com, LLC) were accounted for under the pooling-of-interests method (Old School and Re-Print are herein referred to as the "Pooled Companies"). As a result of these business combinations being accounted for under the pooling-of-interests method, the results of the Company prior to the completion of such business combinations represent the combined results of the Pooled Companies operating as separate autonomous entities.

NOTE 2 -- BASIS OF PRESENTATION

The consolidated financial statements through April 1998, reflect the assets, liabilities, divisional equity, revenues and expenses that were directly related to the Company as it was operated within U.S. Office Products. In cases involving assets and liabilities not specifically identifiable to any particular business of U.S. Office Products, only those assets and liabilities expected to be transferred to the Company prior to the Distribution were included in the Company's separate consolidated balance sheet. The Company's statement of income includes all of the related costs of doing business, including an allocation of certain general corporate expenses of U.S. Office Products which were not directly related to these businesses including certain corporate executives' salaries, accounting and legal fees, departmental costs for accounting, finance, legal, purchasing, marketing and human resources as well as other general overhead costs. These allocations were based on a variety of factors, dependent upon the nature of the costs being allocated, including revenues, number and size of acquisitions and number of employees. Management believes these allocations were made on a reasonable basis.

U.S. Office Products uses a centralized approach to cash management and the financing of its operations. As a result, minimal amounts of cash and cash equivalents and an agreed upon amount of debt was allocated to the Company at the time of the Distribution. The consolidated statement of operations does not include an allocation of interest expense on all debt allocated to the Company up to the date of the Distribution on June 9, 1998. See Note 9 for further discussion of interest expense.

SCHOOL SPECIALTY, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
(DOLLARS IN THOUSANDS EXCEPT PER SHARE AMOUNTS)

NOTE 3 -- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

USE OF ESTIMATES

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

DEFINITION OF FISCAL YEAR

As used in these consolidated financial statements and related notes to consolidated financial statements, "fiscal 1998" and "fiscal 1997" refer to the Company's fiscal year ended April 25, 1998 and April 26, 1997, respectively.

CHANGE IN FISCAL YEAR

Prior to their respective dates of acquisition by U.S. Office Products, the Pooled Companies reported results on years ending on December 31. Upon acquisition by U.S. Office Products and effective for fiscal 1997, the Pooled Companies changed their year-ends from December 31 to conform to U.S. Office Products' fiscal year, which ends on the last Saturday in April. A four-month fiscal transition period from January 1, 1996 through April 30, 1996 has been presented for the Company to conform its fiscal year-end.

PRINCIPLES OF CONSOLIDATION

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

CASH AND CASH EQUIVALENTS

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

CONCENTRATION OF CREDIT RISK

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

INVENTORIES

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

PROPERTY AND EQUIPMENT

Property and equipment is stated at cost. Additions and improvements are capitalized. Maintenance and repairs are expensed as incurred. Depreciation of property and equipment is calculated using the straight-line method over the estimated useful lives of the respective assets.

NOTE 3 -- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)
The estimated useful lives range from 25 to 40 years for buildings and its components and three to 15 years for furniture, fixtures and equipment. Property and equipment leased under capital leases is being amortized over the lesser of its useful life or its lease terms.

INTANGIBLE ASSETS

Intangible assets consist primarily of goodwill, which represents the excess of cost over the fair value of assets acquired in business combinations accounted for under the purchase method and non-compete agreements. Substantially all goodwill is amortized on a straight line basis over an

estimated useful life of 40 years. Management periodically evaluates the recoverability of goodwill, which would be adjusted for a permanent decline in value, if any, by comparing anticipated undiscounted future cash flows from operations to net book value. Other intangible assets are being amortized over their estimated useful lives ranging from one to four years.

FAIR VALUE OF FINANCIAL INSTRUMENTS

The carrying amounts of the Company's financial instruments including cash and cash equivalents, accounts receivable and accounts payable approximate fair value.

INCOME TAXES

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

REVENUE RECOGNITION

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

COST OF REVENUES

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

ADVERTISING COSTS

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

NOTE 3 -- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

DEFERRED CATALOG COSTS

Deferred catalog costs are amortized in amounts proportionate to revenues over the life of the catalog, which is typically one to two years. Amortization expense related to deferred catalog costs is included in the consolidated statement of operations as a component of selling, general and administrative expenses. Such amortization expense for the year ended December 31, 1995, the four months ended April 30, 1996, the fiscal years ended April 26, 1997 and April 25, 1998 and the nine months ended January 24, 1998 and January 23, 1999 was $4,395, $832, $3,621, $6,934, $5,430 (unaudited) and $9,847 (unaudited), respectively.

INTERNALLY DEVELOPED SOFTWARE

Internal costs related to internally developed software, such as internal salaries and supplies, are expensed as incurred as a component of selling, general and administrative expenses. External costs related to internally developed software, such as fees for outside programmers and consultants, are capitalized and expensed over the expected useful life of the software, normally three to five years.

NON-RECURRING ACQUISITION COSTS

Non-recurring acquisition costs represent acquisition costs incurred by the Company in business combinations accounted for under the pooling-of-interests method. These costs include accounting, legal and investment banking fees, real estate and environmental assessments and appraisals, and various regulatory fees. Generally accepted accounting principles require the Company to expense all acquisition costs (both those paid by the Company and those paid by the sellers of the acquired companies) related to business combinations accounted for under the pooling-of-interests method.

RESTRUCTURING COSTS

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

STRATEGIC RESTRUCTURING COSTS

Strategic restructuring costs represent the Company's portion of the costs incurred by U.S. Office Products as a result of the U.S. Office Products' comprehensive restructuring.

NEW ACCOUNTING PRONOUNCEMENTS

In June 1997, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards ("SFAS") 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 requires that all items required to be recognized under accounting standards as components of comprehensive income be reported in a financial statement that is displayed with the same prominence as other financial statements. SFAS No. 130 is effective for

NOTE 3 -- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

fiscal years beginning after December 15, 1997. Reclassification of financial statements for earlier periods provided for comparative purposes is required. The Company adopted SFAS No. 130 in fiscal 1999. Implementation of this disclosure standard did not affect the Company's financial position or results of operations.

In June 1997, the FASB issued SFAS No. 131, "Disclosures about Segments of an Enterprise and Related Information." SFAS No. 131 establishes standards for reporting information about operating segments in annual and interim financial statements. Operating segments are determined consistent with the way management organizes and evaluates financial information internally for making decisions and assessing performance. It also requires related disclosures about products, geographic areas and major customers. SFAS 131 is effective for fiscal years beginning after December 15, 1997. The Company intends to adopt SFAS No. 131 in fiscal 1999. Implementation of this disclosure standard will not affect the Company's financial position or results of operations.

In March 1998, the American Institute of Certified Public Accountants ("AICPA") issued Statement of Position 98-1, "Accounting for the Costs of Computer Software Developed or Obtained for Internal Use" ("SOP 98-1"). SOP 98-1 requires computer software costs associated with internal use software to be expensed as incurred until certain capitalization criteria are met. The Company will adopt SOP 98-1 during fiscal 1999. Adoption of this Statement is not expected to have a material impact on the Company's consolidated financial position or results of operations.

In June 1998, the FASB issued SFAS No. 133 "Accounting for Derivative Instruments and Hedging Activities." This statement, which is required to be adopted for annual periods beginning after June 15, 1999, establishes standards for recognition and measurement of derivatives and hedging activities. The

Company will implement this statement in fiscal 2001 as required. The adoption of SFAS No. 133 is not expected to have a material effect on the Company's financial position or results of operations.

UNAUDITED INTERIM FINANCIAL STATEMENTS

In the opinion of management, the Company has made all adjustments, consisting only of normal recurring accruals, necessary for a fair presentation of the financial condition of the Company as of January 23, 1999 and the results of operations and of cash flows for the nine months ended January 24, 1998 and January 23, 1999, as presented in the accompanying unaudited consolidated financial statements.

DISTRIBUTION RATIO

On May 14, 1998, the U.S. Office Products Board of Directors approved the distribution ratio for the Company in connection with the Distribution. At the date of Distribution, the Company issued approximately 12.2 million shares of its common stock to U.S. Office Products, which then distributed such shares to its shareholders in the ratio of one share of Company common stock for every nine shares of U.S. Office Products common stock held by each shareholder. The share data reflected in the accompanying financial statements represents the historical share data for U.S. Office Products for the period or as of the date indicated up to the date of the Distribution on June 9, 1998, retroactively adjusted to give effect to the one for nine distribution ratio.

NOTE 4 -- BUSINESS COMBINATIONS

POOLING-OF-INTERESTS METHOD

In fiscal 1997, the Company issued 4,257,693 shares of U.S. Office Products common stock to acquire the Pooled Companies. The Pooled Companies and the number of shares issued are as follows:

COMPANY NAME	NUMBER OF SHARES ISSUED
School Specialty, Inc.	2,307,693
Re-Print	1,950,000
Total shares issued	4,257,693

The Company's consolidated financial statements give retroactive effect to the acquisitions of the Pooled Companies for all periods presented. Prior to being acquired by U.S. Office Products, the Pooled Companies reported on years ending on December 31. Upon completion of the acquisitions of the Pooled Companies, their year-ends were changed to U.S. Office Products' year-end of the last Saturday in April.

The following presents the separate results, in each of the periods presented, of the Company (excluding the results of Pooled Companies prior to the dates on which they were acquired), and the Pooled Companies up to the dates on which they were acquired:

	SCHOOL SPECIALTY	POOLED COMPANIES	COMBINED
For the year ended December 31, 1995			

Revenues	$ --	$150,482	$150,482
Net loss	$ --	$ (3,367)	$ (3,367)
For the four months ended April 30, 1996			
Revenues	$ --	$ 28,616	$ 28,616
Net loss	$ --	$ (4,675)	$ (4,675)
For the year ended April 26, 1997			
Revenues	$181,420	$ 10,326	$191,746
Net income	$ 7,791	$ 341	$ 8,132

PURCHASE METHOD

In 1995, one of the Pooled Companies made one acquisition accounted for under the purchase method for an aggregate cash purchase price of $5,389. The total assets related to the acquisition were $11,874, including goodwill of $3,268. The results of the acquisition have been included in the Company's results from its date of acquisition.

In fiscal 1997, the Company made six acquisitions accounted for under the purchase method for an aggregate purchase price of $18,219, consisting of $7,734 of cash and U.S. Office Products common stock with a market value of $10,485. The total assets related to these six acquisitions were $30,106, including goodwill of $14,248. The results of these acquisitions have been included in the Company's results from their respective dates of acquisition.

In fiscal 1998, the Company made eight acquisitions accounted for under the purchase method for an aggregate purchase price of $99,236, consisting of $95,670 of cash and U.S. Office Products common stock with a market value of $3,566. The total assets related to these

NOTE 4 -- BUSINESS COMBINATIONS (CONTINUED)

eight acquisitions were $125,595, including goodwill of $80,359. The results of these acquisitions have been included in the Company's results from their respective dates of acquisition.

The following presents the unaudited pro forma results of operations of the Company for the fiscal years ended April 26, 1997 and April 25, 1998 and includes the Company's consolidated financial statements, which give retroactive effect to the acquisitions of the Pooled Companies for all periods presented, and the results of the companies acquired in purchase acquisitions as if all such purchase acquisitions had been made at the beginning of fiscal 1997. The results presented below include certain pro forma adjustments to reflect the amortization of intangible assets, adjustments in executive compensation of $124 and $573 for the fiscal years ended April 26, 1997 and April 25, 1998, respectively, and the inclusion of a federal income tax provision on all earnings:

	FOR THE FISCAL YEAR ENDED	
	APRIL 26, 1997	APRIL 25, 1998
Revenues	$350,760	$381,242
Net income	11,714	7,538
Net income per share:		
Basic	$1.17	$0.57
Diluted	1.15	0.56

The unaudited pro forma results of operations are prepared for comparative purposes only and do not necessarily reflect the results that would have occurred had the acquisitions occurred at the beginning of fiscal 1997 or the

results which may occur in the future.

NOTE 5 -- RESTRUCTURING COSTS

The Company records the costs of consolidating existing Company facilities into acquired operations, including the external costs and liabilities to close redundant Company facilities and severance and relocation costs related to the Company's employees. The following table sets forth the Company's accrued restructuring costs for the fiscal years ended April 30, 1996, April 26, 1997 and April 25, 1998, and the nine months ended January 23, 1999:

	FACILITY CLOSURE AND CONSOLIDATION	SEVERANCE AND TERMINATIONS	OTHER ASSET WRITE-DOWNS AND COSTS	TOTAL
Balance at April 30 1996	$ 641	$ 469	$ 1,422	$ 2,532
Additions	--	--	194	194
Utilizations	(641)	(469)	(1,465)	(2,575)
Balance at April 26, 1997	--	--	151	151
Additions	728	214	1,549	2,491
Utilizations	(728)	--	(1,442)	(2,170)
Balance at April 25, 1998	--	214	258	472
Additions (unaudited)	1,300	2,100	800	4,200
Utilizations (unaudited)	--	(931)	(103)	(1,034)
Balance at January 23, 1999 (unaudited)	$1,300	$1,383	$ 955	$ 3,638

NOTE 6 -- PREPAID EXPENSES AND OTHER CURRENT ASSETS

Prepaid expenses and other current assets consist of the following:

	APRIL 26, 1997	APRIL 25, 1998
Deferred catalog costs	$ 5,740	$ 7,206
Deferred income taxes	2,055	1,886
Notes Receivable	1,643	1,558
Other	893	2,853
Total prepaid expenses and other current assets	$10,331	$13,503

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

NOTE 7 -- PROPERTY AND EQUIPMENT

Property and equipment consists of the following:

	APRIL 26, 1997	APRIL 25, 1998	JANUARY 23, 1999

			(UNAUDITED)
Land	$ 729	$ 1,144	$ 1,921
Buildings	6,488	10,064	22,659
Furniture and fixtures	6,502	6,725	11,358
Warehouse equipment	3,163	7,052	9,984
Leasehold improvements	2,185	3,341	4,409
	19,067	28,326	50,331
Less: Accumulated depreciation	(4,589)	(5,773)	(10,550)
Net property and equipment	$14,478	$22,553	$ 39,781

Depreciation expense (which includes capital lease amortization) for the year ended December 31, 1995, the four months ended April 30, 1996, the fiscal years ended April 26, 1997 and April 25, 1998 and the nine months ended January 24, 1998 and January 23, 1999 was $1,645, $470, $1,540, $2,499, $1,971 (unaudited) and $2,880 (unaudited), respectively.

NOTE 8 -- INTANGIBLE ASSETS

Intangible assets consist of the following:

	APRIL 26, 1997	APRIL 25, 1998	JANUARY 23, 1999
			(UNAUDITED)
Goodwill	$ 22,128	$102,487	$186,723
Other	2,020	2,487	5,287
	24,148	104,974	192,010
Less: Accumulated amortization	(3,324)	(5,361)	(8,317)
Net intangible assets	$ 20,824	$ 99,613	$183,693

NOTE 8 -- INTANGIBLE ASSETS (CONTINUED)

Amortization expense for the year ended December 31, 1995, the four months ended April 30, 1996, the fiscal years ended April 26, 1997 and April 25, 1998 and the nine months ended January 24, 1998 and January 23, 1999 was $1,098, $204, $566, $2,061, $1,411 (unaudited) and $3,184 (unaudited), respectively.

NOTE 9 -- CREDIT FACILITIES

SHORT-TERM DEBT

Short-term debt consists of the following:

	APRIL 26, 1997	APRIL 25, 1998	JANUARY 23, 1999
			(UNAUDITED)
Current maturities of long-term debt	$232	$ 11	$10,000
Other	30	--	314
Total short-term debt	$262	$ 11	$10,314

LONG-TERM DEBT

Long-term debt consists of the following:

	APRIL 26, 1997	APRIL 25, 1998	JANUARY 23, 1999
			(UNAUDITED)
Bank debt	$ --	$ --	$172,000
Capital lease obligations	315	16	199
Other	483	310	--
	798	326	172,199
Less: Current maturities of long-term debt	(232)	(11)	(10,000)
Total long-term debt	$ 566	$ 315	$162,199

MATURITIES OF LONG-TERM DEBT

Maturities on long-term debt as of April 25, 1998, including capital lease obligations, are as follows:

1999	$ 11
2000	181
2001	92
2002	36
2003	6
Thereafter	--
Total maturities of long-term debt	$326

PAYABLE TO U.S. OFFICE PRODUCTS

The short-term payable to U.S. Office Products was incurred by the Company primarily as a result of U.S. Office Products repaying short-term debt outstanding of the businesses acquired by U.S. Office Products at or soon after the respective dates of acquisition and through the

NOTE 9 -- CREDIT FACILITIES (CONTINUED)

centralized cash management system, which involved daily advances or sweeps of cash to keep the cash balance at or near zero on a daily basis.

The long-term payable to U.S. Office Products primarily represents payments made by U.S. Office Products on behalf of the Company and a reasonable allocation by U.S. Office Products of certain general corporate expenses. An analysis of the activity in this account is as follows:

Balance at April 30, 1996	$ --
Payments of long-term debt of acquired companies	21,379
Funding of acquisitions and payment of acquisition costs	8,203
Allocated corporate expenses	2,221
Normal operating costs paid by U.S. Office Products	1,423
Balance at April 26, 1997	33,226

Payments of long-term debt of acquired companies..........	822
Funding of acquisitions and payment of acquisition costs..	20,706
Allocated corporate expenses............................	7,145
Normal operating costs paid by U.S. Office Products.......	800
Balance at April 25, 1998.................................	$62,699

The average outstanding long-term payable to U.S. Office Products during the fiscal years ended April 26, 1997 and April 25, 1998 was $27,269 and $52,207, respectively.

Interest has been allocated to the Company based upon the Company's average outstanding payable (short-term and long-term) balance with U.S. Office Products at U.S. Office Products' weighted average interest rate during such period. The Company's financial statements include allocations of interest expense from U.S. Office Products totaling $3,839 and $5,414 during the fiscal years ended April 26, 1997 and April 25, 1998, respectively.

The Distribution Agreement allocated a specified amount of U.S. Office Products' debt outstanding under its credit facilities to each spin-off company and required each spin-off company, on or prior to the Distribution, to obtain credit facilities, to borrow funds under such facilities and to use the proceeds of such borrowings to pay off the U.S. Office Products' debt so allocated plus any additional debt incurred by U.S. Office Products after January 12, 1998 in connection with the acquisition of an entity that has become or will become a subsidiary of such spin-off company. Under the Distribution Agreement, $80,000 of U.S. Office Products' debt has been allocated to the Company, and since January 12, 1998, U.S. Office Products has incurred an additional $3,300 of debt in connection with one additional acquisition completed by the Company. Prior to the Distribution, the Company entered into the credit facility and at the time of the Distribution borrowed $83,300 under the facility to pay off debt of U.S. Office Products.

NOTE 10 -- INCOME TAXES

The provision for income taxes consists of:

	FOR THE YEAR ENDED DECEMBER 31, 1995	FOR THE FOUR MONTHS ENDED APRIL 30, 1996	FOR THE FISCAL YEAR ENDED APRIL 26, 1997	FOR THE FISCAL YEAR ENDED APRIL 25, 1998
Income taxes currently payable:				
Federal......................................	$(66)	$ --	$ 71	$3,646
State..	--	--	99	907
	(66)	--	170	4,553
Deferred income tax expense (benefit)...........	239	139	(2,582)	927
Total provision for (benefit from) income taxes................................	$173	$139	$(2,412)	$5,480

Deferred taxes are comprised of the following:

	APRIL 26,	APRIL 25,

	1997	1998
Current deferred tax assets:		
Inventory	$ 265	$ 743
Allowance for doubtful accounts	193	164
Net operating loss carryforward	3,069	851
Accrued liabilities	421	128
Prepaid catalog advertising/restructuring	(1,893)	--
Total current deferred tax assets	2,055	1,886
Long-term deferred tax assets (liabilities):		
Property and equipment	(289)	(591)
Intangible assets	258	80
Total long-term deferred tax liabilities	(31)	(511)
Net deferred tax assets	$ 2,024	$1,375

At April 30, 1996, the valuation allowance of $5.3 million had been recorded, related to deferred tax assets of a Pooled Company, including net operating loss carryforwards. Based upon the improved profitability of this Pooled Company during fiscal 1997, the valuation allowance was reversed in fiscal 1997, resulting in a benefit from income taxes.

NOTE 10 -- INCOME TAXES (CONTINUED)

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

	FOR THE YEAR ENDED DECEMBER 31, 1995	FOR THE FOUR MONTHS ENDED APRIL 30, 1996	FOR THE FISCAL YEAR ENDED	
			APRIL 26, 1997	APRIL 25, 1998
U.S. federal statutory rate	34.0%	35.0%	35.0%	34.0%
State income taxes, net of federal income tax benefit for fiscal 1997	--	--	1.0	6.6
Net benefit for current year net operating loss	(34.0)	(32.8)	--	--
Reversal of valuation allowance	--	--	(84.8)	--
Nondeductible goodwill	--	(2.2)	1.6	6.0
Nondeductible acquisition costs	--	--	5.0	3.3
Tax on separate company income not offset against other company's loss	(5.4)	(3.0)	--	--
Other	--	--	--	1.2
Effective income tax rate	(5.4)%	(3.0)%	(42.2)%	51.1%

At April 25, 1998, the Company has available for tax purposes net operating loss carryforwards of approximately $2,500. These carryforwards expire in the years ending 2002-2011. The net operating loss carryforwards are subject to certain limitations pursuant to IRS Code Section 382.

NOTE 11 -- LEASE COMMITMENTS

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

	CAPITAL LEASES	OPERATING LEASES
1999	$12	$1,556
2000	6	1,183
2001	--	1,027
2002	--	659
2003	--	323
Thereafter	--	--
Total minimum lease payments	18	$4,748
Less: Amounts representing interest	(2)	
Present value of net minimum lease payments	$16	

Rent expense for the year ended December 31, 1995, the four months ended April 30, 1996 and the fiscal years ended April 26, 1997 and April 25, 1998 was $1,947, $600, $1,817 and $3,389, respectively.

NOTE 12 -- COMMITMENTS AND CONTINGENCIES

LITIGATION

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

POSTEMPLOYMENT BENEFITS

The Company has entered into employment agreements with several employees that would result in payments to these employees upon a change of control or certain other events. No amounts have been accrued at April 25, 1998 or April 26, 1997 related to these agreements, as no change of control has occurred.

AGREEMENTS WITH USOP

Under the Distribution Agreement, the Company was required, on or prior to the Distribution, to obtain a credit facility, to borrow funds under such facility and to use the proceeds of such borrowings to pay off $83.3 million of U.S. Office Products' debt. See additional discussion in Note 9.

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

Company was a wholly owned subsidiary of U.S. Office Products.

NOTE 13 -- EMPLOYEE BENEFIT PLANS

Effective September 1, 1996, the Company implemented the U.S. Office Products 401(k) Retirement 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 all full-time employees are eligible to participate in the 401(k) Plan after one year of service.

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

NOTE 13 -- EMPLOYEE BENEFIT PLANS (CONTINUED)
December 31, 1995 and the four months ended April 30, 1996, the subsidiaries incurred expenses totaling $105 and $6, respectively, related to these plans.

NOTE 14 -- STOCKHOLDERS' EQUITY

EARNINGS PER SHARE

In February 1997, the FASB issued SFAS No. 128, "Earnings Per Share." SFAS No. 128 establishes standards for computing and presenting earnings per share ("EPS"). SFAS No. 128 requires the dual presentation of basic and diluted EPS on the face of the consolidated statement of income. Basic EPS excludes dilution and is computed by dividing income available to common shareholders by the weighted average number of common shares outstanding for the period. Diluted EPS reflects the potential dilution that could occur if securities or other contracts to issue common stock were exercised or converted into common stock. The Company has adopted SFAS No. 128 during fiscal 1998 and has restated all prior period EPS data. The following

NOTE 14 -- STOCKHOLDERS' EQUITY (CONTINUED)
information presents the Company's computations of basic and diluted EPS for the periods presented in the consolidated statement of operations.

	INCOME (NUMERATOR)	SHARES (DENOMINATOR)	PER SHARE AMOUNT
Year ended December 31, 1995:			
Basic EPS	$(3,367)	6,562,210	$(0.51)
Effect of dilutive employee stock options		107,199	
Diluted EPS	$(3,367)	6,669,409	$(0.50)
Four months ended April 30, 1996:			
Basic EPS	$(4,675)	8,611,240	$(0.54)
Effect of dilutive employee stock options		177,702	
Diluted EPS	$(4,675)	8,788,942	$(0.53)
Fiscal 1997:			

Basic EPS	$ 8,132	10,002,875	$ 0.81
Effect of dilutive employee stock options		192,766	
Diluted EPS	$ 8,132	10,195,641	$ 0.80
Fiscal 1998:			
Basic EPS	$ 5,239	13,284,003	$ 0.40
Effect of dilutive employee stock options		263,461	
Diluted EPS	$ 5,239	13,547,464	$ 0.39
Nine months ended January 24, 1998 (unaudited):			
Basic EPS	$ 8,835	12,750,931	$ 0.69
Effect of dilutive employee stock options		269,571	
Diluted EPS	$ 8,835	13,020,502	$ 0.68
Nine months ended January 23, 1999 (unaudited):			
Basic EPS	$10,695	14,624,672	$ 0.73
Effect of dilutive employee stock options		40,379	
Diluted EPS	$10,695	14,665,051	$ 0.73

CAPITAL CONTRIBUTION BY U.S. OFFICE PRODUCTS

During the fiscal year ended April 25, 1998 and the nine month period ended January 23, 1999, U.S. Office Products contributed $81,332 and $8,095 (unaudited), respectively, of capital to the Company. The contribution reflects the forgiveness of intercompany debt by U.S. Office Products, as it was agreed that the Company would be allocated only $80,000 of debt plus the amount of any additional debt incurred after January 12, 1998 in connection with the acquisition of entities that would become subsidiaries of the Company.

NOTE 14 -- STOCKHOLDERS' EQUITY (CONTINUED)
EMPLOYEE STOCK PLANS

At the time of the IPO, the Company replaced certain options outstanding under the U.S. Office Products 1994 Long-Term Compensation Plan, which represented options to purchase shares of common stock of U.S. Office Products held by employees, with options to purchase shares of common stock of the Company. In order to keep the option holders in the same economic position immediately before and after the Distribution, the number of U.S. Office Products options held by Company personnel was multiplied by 0.903 and the exercise price of those options was divided by 0.903 for purposes of the replacement options. The vesting provisions and option period of the original grants were not changed. All option data reflected below has been retroactively restated to reflect the effects of the Distribution. The Company accounts for options issued in accordance with APB Opinion No. 25. Accordingly, because the exercise prices of the options have equaled the market price on the date of grant, no compensation expense has been recognized for the options granted. Had compensation cost for the Company's stock options been recognized based upon the fair value of the stock options on the grant date under the methodology prescribed by SFAS 123, the Company's net income and net income per share would have been impacted as indicated in the following table.

	FOR THE FISCAL YEAR ENDED	
	APRIL 26, 1997	APRIL 25, 1998

Net income:		
As reported	$8,132	$5,239
Pro Forma	7,383	4,436
Net income per share:		
As reported:		
Basic	0.81	0.40
Diluted	0.80	0.39
Pro Forma:		
Basic	0.74	0.33
Diluted	0.72	0.33

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

	FOR THE FISCAL YEAR ENDED	
	APRIL 26, 1997	APRIL 25, 1998
Expected life of option	7 years	7 years
Risk free interest rate	6.66%	6.35%
Expected volatility of stock	44.00%	44.10%

The weighted-average fair value of options granted was $15.31 and $9.75 for fiscal 1997 and 1998, respectively.

NOTE 14 -- STOCKHOLDERS' EQUITY (CONTINUED)

A summary of option transactions follows:

	OPTIONS OUTSTANDING		OPTIONS EXERCISABLE	
	OPTIONS	WEIGHTED-AVERAGE EXERCISE PRICE	OPTIONS	WEIGHTED-AVERAGE EXERCISE PRICE
Balance at April 30, 1996				
Granted	225,445	$27.03		
Exercised	--	--		
Canceled	(14,565)	28.37		
Balance at April 26, 1997	(210,880)	26.93		
Granted	257,020	18.01		
Exercised	--	--		
Canceled	(25,606)	25.45		
Balance at April 25, 1998	442,294	$21.83	46,319	$27.14

The following table summarizes information about stock options outstanding at April 25, 1998:

OPTIONS OUTSTANDING OPTIONS EXERCISABLE

RANGE OF EXERCISE PRICES	OPTIONS	WEIGHTED-AVERAGE LIFE	WEIGHTED-AVERAGE EXERCISE PRICE	OPTIONS	WEIGHTED-AVERAGE EXERCISE PRICE
$16.80-$21.77	257,020	9.23	$18.01	--	--
$24.36-$29.43	185,274	8.17	27.14	46,319	$27.14
$16.80-$29.43	442,294	8.79	$21.83	46,319	$27.14

Non-qualified options granted to employees are generally exercisable beginning one year from the date of grant in cumulative yearly amounts of 25% of the shares under option and generally expire ten years from the date of grant.

Under a services agreement entered into with Jonathan J. Ledecky, the Board of Directors of U.S. Office Products agreed that Jonathan J. Ledecky would receive a stock option for School Specialty Common Stock from the Company as of the date of the Distribution. The U.S. Office Products Board intended the option to be compensation for Mr. Ledecky's services as a director of the Company, and certain services as an employee of the Company. The option covers 7.5% of the outstanding Company common stock determined as of the date of the Distribution, with no anti-dilution provisions in the event of issuance of additional shares of common stock (other than with respect to stock splits or reverse stock splits). Immediately following the date of the Distribution, Mr. Ledecky received options for 914,079 shares of School Specialty common stock. The options have a per share exercise price of $15.50, equal to the IPO price.

As of June 10, 1998, immediately following the effective date of the registration statements filed in connection with the IPO and the Distribution, the Company's Board of Directors granted 731,256 options to purchase shares of the Company's common stock, immediately following the Distribution and prior to the IPO, to certain executive officers (excluding Mr. Ledecky). The options granted were granted under the 1998 Stock Incentive Plan (the "Plan") and have a per share exercise price of $15.50, equal to the IPO price.

NOTE 14 -- STOCKHOLDERS' EQUITY (CONTINUED)

Total options available for grant under the Plan are equal to 20.0% of the outstanding shares of the Company's common stock immediately following the grant of the award.

NOTE 15 -- QUARTERLY FINANCIAL DATA (UNAUDITED)

The following presents certain unaudited quarterly financial data for the fiscal years ended April 26, 1997 and April 25, 1998 and the nine months ended January 23, 1999:

	FISCAL YEAR ENDED APRIL 26, 1997				
	FIRST	SECOND	THIRD	FOURTH	TOTAL
Revenues	$58,991	$71,682	$29,304	$31,769	$191,746
Gross profit	19,858	23,435	9,595	11,996	64,884
Operating income (loss)	5,197	6,732	(1,520)	(688)	9,721
Net income (loss)	1,981	2,692	(1,067)	4,526	8,132
Per share amounts:					
Basic	0.21	0.28	(0.11)	0.40	0.81
Diluted	0.21	0.27	(0.11)	0.39	0.80

FISCAL YEAR ENDED APRIL 25, 1998

	FIRST	SECOND	THIRD	FOURTH	TOTAL
Revenues	$87,029	$111,460	$49,391	$62,575	$310,455
Gross profit	30,337	37,225	16,213	23,810	107,585
Operating income (loss)	11,872	12,155	(3,647)	(4,132)	16,248
Net income (loss)	5,804	5,965	(2,934)	(3,596)	5,239
Per share amounts:					
Basic	0.49	0.49	(0.20)	(0.24)	0.40
Diluted	0.48	0.47	(0.20)	(0.24)	0.39

	NINE MONTHS ENDED JANUARY 23, 1999			
	FIRST	SECOND	THIRD	TOTAL
Revenues	$126,657	$212,316	$85,359	$424,332
Gross profit	44,042	70,761	28,093	142,896
Operating income (loss)	13,326	18,674	(2,383)	29,617
Net income (loss)	6,563	7,430	(3,298)	10,695
Per share amounts:				
Basic	0.45	0.51	(0.23)	0.73
Diluted	0.44	0.51	(0.23)	0.73

NOTE 16 -- SUBSEQUENT EVENTS (UNAUDITED)

SENIOR CREDIT FACILITY

On September 30, 1998, the Company entered into a five year secured $350,000 credit facility consisting of a $250,000 revolving loan and $100,000 term loan. Interest on borrowings under the senior credit facility accrued through the third quarter of fiscal 1999 at a rate of, at the Company's option, either (i) LIBOR plus 2.375% or (ii) the lender's base rate plus a margin of .75%, plus an unused fee of .475 on the unborrowed amount under the revolving credit facility. Thereafter, interest will accrue at a rate of (i) LIBOR plus a range of 1.000% to 2.000%, or (ii) the lender's base rate plus a range of .000% to .750%, plus an unused fee ranging from .275 to .475 on the unborrowed amount under the revolving credit facility (depending on the Company's leverage ratio of funded debt to earnings before interest, income taxes, depreciation and amortization). Indebtedness is 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 outstanding on June 10, 1998 in accordance with the terms of the U.S. Office Products strategic restructuring plan, to fund the two companies acquired in the first three quarters of fiscal 1999 and for seasonal working capital and capital expenditures. 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 January 23, 1999 under the credit facility was approximately $172,000.

On October 28, 1998 the Company entered into an interest rate swap agreement with the Bank of New York covering $50,000 of the outstanding credit facility. The agreement fixes the 30 day LIBOR interest rate at 4.37% per annum on the $50,000 notional amount and has a three year term that may be canceled by the Bank of New York on the second anniversary. The floating LIBOR interest rate at January 23, 1999 was 4.94%.

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

PURCHASE BUSINESS COMBINATIONS

In the nine months ended January 23, 1999, the Company made two acquisitions which were accounted for under the purchase method of accounting for an aggregate cash purchase price of approximately $95,000, resulting in goodwill of approximately $85,000 which will be amortized over 40 years. The results of these acquisitions have been included in the Company's results from their respective dates of acquisition.

On February 9, 1999 the Company purchased Sportime, LLC, the physical education, athletic and recreation products business of Genesis Direct Inc. for approximately $23 million in cash, resulting in goodwill of approximately $13,587 which will be amortized over 40 years.

NOTE 16 -- SUBSEQUENT EVENTS (UNAUDITED) (CONTINUED)

The following presents the unaudited pro forma results of operations of the Company for the fiscal year ended April 25, 1998, and the nine month periods ended January 23, 1999 and January 24, 1998, and includes the Company's consolidated financial statements, which give retroactive effect to the acquisitions as if all fiscal year 1998 and fiscal year 1999 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, and the inclusion of a federal income tax provision on all earnings for the periods ended April 25, 1998, January 23, 1999 and January 24, 1998, respectively:

		NINE MONTHS ENDED	
	FISCAL YEAR ENDED APRIL 25, 1998	JANUARY 24, 1998	JANUARY 23, 1999
Revenues	$597,285	$496,941	$506,180
Net income	4,276	7,953	11,744
Net income per share			
Basic	$ 0.27	$ 0.53	$ 0.78
Diluted	$ 0.27	$ 0.52	$ 0.78

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

NON-RECURRING CHARGES AND RESTRUCTURING COSTS

The Company incurred non-recurring charges in the quarters ended July 25, 1998 and October 24, 1998. The first quarter non-cash strategic restructuring plan cost of $1,074 consisted 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 personnel of the Company, net of underwriting discounts. The second quarter restructuring costs of $4,200 is related to the consolidation of the Company's existing warehousing, customer service and sales operations resulting from the acquisition of National School Supply Company. The

$4,200 charge included $2,100 for employee severance and termination benefits, $1,300 for lease termination and facility shut-down costs and $800 for write down of fixed assets and inventories.

SCHOOL SPECIALTY, INC.

PRO FORMA COMBINED FINANCIAL STATEMENTS
(UNAUDITED)

The unaudited pro forma financial statements give effect to, where applicable, all acquisitions completed through February 9, 1999, the spin-off and the refinancing of all amounts payable to U.S. Office Products in connection with the spin-off and the June 1998 initial public offering and concurrent offering to certain directors and officers. The pro forma Common Stock offering adjustments further adjust such pro forma financial statements to give effect to such offering.

The pro forma combined balance sheet gives effect to the acquisition completed on February 9, 1999.

The pro forma combined statement of income for the fiscal year ended April 25, 1998 gives effect to (i) the spin-off and the refinancing of all amounts payable to U.S. Office Products in connection with the spin-off; (ii) the June 1998 initial public offering and concurrent offering to certain directors and officers; (iii) the acquisitions of Sax Arts and Crafts, American Academic and six other individually insignificant companies in business combinations accounted for under the purchase method completed during the fiscal year ended April 25, 1998 (the "Fiscal 1998 Purchase Acquisitions"); and (iv) the acquisitions of Hammond & Stephens, National School Supply and Sportime in business combinations accounted for under the purchase method completed during the fiscal year ending April 24, 1999 (the "Fiscal 1999 Purchase Acquisitions"), as if all such transactions had occurred on April 27, 1997. The pro forma combined statement of income for the year ended April 25, 1998 includes (i) our audited financial information for the year ended April 25, 1998; (ii) the unaudited financial information of the Fiscal 1998 Purchase Acquisitions for the period from April 27, 1997 through their respective dates of acquisitions; and (iii) the unaudited financial information of the Fiscal 1999 Purchase Acquisitions for the period from April 27, 1997 through April 25, 1998.

The pro forma combined statement of income for the nine months ended January 23, 1999 gives effect to (i) the spin-off and the refinancing of all amounts payable to U.S. Office Products in connection with the spin-off; (ii) the June 1998 initial public offering and concurrent offering to certain directors and officers; and (iii) the Fiscal 1999 Purchase Acquisitions, as if all such transactions had occurred on April 26, 1998. The pro forma combined statement of income for the nine months ended January 23, 1999 includes our unaudited financial information for the nine months ended January 23, 1999 and the unaudited financial information of the Fiscal 1999 Purchase Acquisitions for the period from April 26, 1998 through the earlier of their respective dates of acquisition or January 23, 1999.

The pro forma combined statement of income for the nine months ended January 24, 1998 gives effect to (i) the spin-off and the refinancing of all amounts payable to U.S. Office Products in connection with the spin-off; (ii) the June 1998 initial public offering and concurrent offering to certain directors and officers; (iii) the Fiscal 1998 Purchase Acquisitions; and (iv) the Fiscal 1999 Purchase Acquisitions, as if all such transactions had occurred on April 27, 1997. The pro forma combined statement of income for the nine months ended January 24, 1998 includes (i) our unaudited financial information for the nine months ended January 24, 1998; (ii) the unaudited financial information of the Fiscal 1998 Purchase Acquisitions for the period from April 27, 1997 through the earlier of their respective dates of acquisition or January 24, 1998; and (iii) the unaudited financial information of the Fiscal 1999 Purchase Acquisitions for the period from April 27, 1997 through January 24, 1998.

Our historical financial statements reflect an allocated portion of general and administrative costs and interest expense incurred by U.S. Office Products. The allocated costs include expenses such as: certain corporate executives' salaries, accounting and legal fees, departmental costs for accounting, finance, legal, purchasing, marketing and human resources, as well as other general

overhead costs. These corporate overheads have been allocated to us

using one of several factors, dependent on the nature of the costs being allocated, including, revenues, number and size of acquisitions and number of employees. Interest expense incurred by U.S. Office Products has been allocated to us based upon our average outstanding intercompany balances with U.S. Office Products at U.S. Office Products' weighted average interest rate during such period.

The pro forma adjustments are based upon preliminary estimates, available information and certain assumptions that management deems appropriate. The unaudited pro forma combined financial data presented herein does not purport to represent what our financial position or results of operations would have been had the transactions which are the subject of pro forma adjustments occurred on those dates, as assumed, and are not necessarily representative of our financial position or results of operations in any future period. The pro forma combined financial statements should be read in conjunction with the other financial statements and notes thereto included elsewhere in this Prospectus.

SCHOOL SPECIALTY, INC.

PRO FORMA COMBINED BALANCE SHEET
JANUARY 23, 1999
(IN THOUSANDS)
(UNAUDITED)

	SCHOOL SPECIALTY, INC.	POST JANUARY 23, 1999 PURCHASE ACQUISITION	PRO FORMA ADJUSTMENTS	PRO FORMA COMBINED	PRO FORMA COMMON STOCK OFFERING ADJUSTMENTS	PRO FORMA AS ADJUSTED
ASSETS						
Cash & cash equivalents	$ --	$ --	$ --	$ --	$ 41,050(b) (41,050)(b)	$ --
Accounts receivable, net	84,843	3,432	--	88,275	--	88,275
Inventories	46,799	4,371	--	51,170	--	51,170
Prepaid and other current assets	16,219	2,820	--	19,039	--	19,039
Total current assets	147,861	10,623	--	158,484	--	158,484
Property and equipment, net	39,781	1,185	--	40,966	--	40,966
Intangible assets, net	183,693	14,689	(1,102)(a)	197,280	--	197,280
Other assets	7,178	12	--	7,190	--	7,190
Total assets	$378,513	$26,509	$ (1,102)	$403,920	$ --	$403,920
LIABILITIES AND STOCKHOLDERS' EQUITY						
Current liabilities:						
Current portion of long-term debt	$ 10,314	$ --	$ --	$ 10,314	$ --	$ 10,314
Accounts payable	15,485	1,063	--	16,548	--	16,548
Accrued compensation	11,945	303	--	12,248	--	12,248
Accrued income taxes	5,596	6	--	5,602	--	5,602
Accrued restructuring	3,638	--	--	3,638	--	3,638
Other accrued liabilities	10,057	738	--	10,795	--	10,795
Total current liabilities	57,035	2,110	--	59,145	--	59,145
Long-term debt	162,199	69	23,000(a)	185,268	(41,050)(b)	144,218
Other	212	228	--	440	--	440
Total liabilities	219,446	2,407	23,000	244,853	(41,050)	203,803
Stockholders' equity:						
Common stock	15	--	--	15	2(b)	17
Capital paid in excess of par value	146,768	--	--	146,768	41,048(b)	187,816
Accumulated other comprehensive income	6	--	--	6	--	6
Retained earnings	12,278	--	--	12,278	--	12,278
Equity of purchased company	--	24,102	(24,102)(a)	--	--	--
Total stockholders' equity	159,067	24,102	(24,102)	159,067	41,050	200,117
Total liabilities and stockholders' equity	$378,513	$26,509	$ (1,102)	$403,920	$ --	$403,920

SCHOOL SPECIALTY, INC.

PRO FORMA COMBINED STATEMENT OF INCOME
FOR THE NINE MONTHS ENDED JANUARY 23, 1999
(IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)
(UNAUDITED)

	SCHOOL SPECIALTY, INC.	NATIONAL SCHOOL SUPPLY	HAMMOND & STEPHENS	SPORTIME	PRO FORMA ADJUSTMENTS	PRO FORMA COMBINED	PRO FORMA COMMON STOCK OFFERING ADJUSTMENTS
Revenues	$424,332	$53,690	$2,380	$25,778	$ --	$506,180	$ --
Cost of revenues	281,436	36,122	1,181	12,047	--	330,786	--
Gross profit	142,896	17,568	1,199	13,731	--	175,394	--
Selling, general and administrative expenses	108,005	12,948	476	11,625	24(e) (32)(f)	133,046	--
Restructuring costs	5,274	127	--	--	--	5,401	--
Operating income	29,617	4,493	723	2,106	8	36,947	--
Other (income) expense:							
Interest expense	8,942	1,265	--	3	3,290(g)	13,500	(2,463)(i)
Interest income	(114)	--	--	--	114(g)	--	--
Other		235	(15)	200	--	420	--
Income before provision for income taxes	20,789	2,993	738	1,903	(3,396)	23,027	2,463
Provision for income taxes	10,094	4	--	--	1,185(h)	11,283	985
Net income	$ 10,695	$ 2,989	$ 738	$ 1,903	$(4,581)	$ 11,744	$ 1,478
Weighted average shares:							
Basic	14,625					15,025(j)	
Diluted	14,665					15,065(j)	
Net income per share:							
Basic	$ 0.73					$ 0.78	
Diluted	$ 0.73					$ 0.78	

	PRO FORMA AS ADJUSTED
Revenues	$506,180
Cost of revenues	330,786
Gross profit	175,394
Selling, general and administrative expenses	133,046
Restructuring costs	5,401
Operating income	36,947
Other (income) expense:	
Interest expense	11,037
Interest income	--
Other	420
Income before provision for income taxes	25,490
Provision for income taxes	12,268
Net income	$ 13,222
Weighted average shares:	
Basic	17,425(k)
Diluted	17,465(k)
Net income per share:	
Basic	$ 0.76
Diluted	$ 0.76

SCHOOL SPECIALTY, INC.

PRO FORMA COMBINED STATEMENT OF INCOME
FOR THE NINE MONTHS ENDED JANUARY 24, 1998
(IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)
(UNAUDITED)

	SCHOOL SPECIALTY, INC.(C)	SAX ARTS AND CRAFTS(C)	AMERICAN ACADEMIC(C)	NATIONAL SCHOOL SUPPLY	HAMMOND & STEPHENS	SPORTIME
Revenues	$247,880	$5,421	$36,423	$146,526	$7,782	$23,966
Cost of revenues	164,105	3,196	24,382	100,819	3,764	11,043
Gross profit	83,775	2,225	12,041	45,707	4,018	12,923
Selling, general and administrative expenses	63,395	1,722	8,789	40,024	2,019	10,533

Restructuring costs	--	--	--	1,198	--	--
Operating income	20,380	503	3,252	4,485	1,999	2,390
Other (income) expense:						
Interest expense	4,100	18	441	3,927	--	--
Interest income	(109)	(3)	--	--	(109)	--
Other	441	--	24	--	--	13
Income before provision for income taxes	15,948	488	2,787	558	2,108	2,377
Provision for income taxes	7,113	189	892	15	--	--
Net income	$ 8,835	$ 299	$ 1,895	$ 543	$2,108	$ 2,377
Weighted average shares:						
Basic	12,751					
Diluted	13,020					
Net income per share:						
Basic	$ 0.69					
Diluted	$ 0.68					

	INDIVIDUALLY INSIGNIFICANT FISCAL 1998 PURCHASE ACQUISITIONS(C)	PRO FORMA ADJUSTMENTS	PRO FORMA COMBINED	PRO FORMA COMMON STOCK OFFERING ADJUSTMENTS	PRO FORMA AS ADJUSTED
Revenues	$28,943	$ --	$496,941	$ --	$496,941
Cost of revenues	19,865	--	327,174	--	327,174
Gross profit	9,078	--	169,767	--	169,767
Selling, general and administrative expenses	7,873	224(e)	135,598	--	135,598
		1,019(f)			
Restructuring costs	--	--	1,198	--	1,198
Operating income	1,205	(1,243)	32,971	--	32,971
Other (income) expense:					
Interest expense	38	4,976(g)	13,500	(2,463)(i)	11,037
Interest income	(4)	225(g)	--	--	--
Other	58	--	536	--	536
Income before provision for income taxes	1,113	(6,444)	18,935	2,463	21,398
Provision for income taxes	140	2,633(h)	10,982	985	11,967
Net income	$ 973	$(9,077)	$ 7,953	$ 1,478	$ 9,431
Weighted average shares:					
Basic			15,126(j)		17,526(k)
Diluted			15,395(j)		17,795(k)
Net income per share:					
Basic			$ 0.53		$ 0.54
Diluted			$ 0.52		$ 0.53

SCHOOL SPECIALTY, INC.

PRO FORMA COMBINED STATEMENT OF INCOME
FOR THE YEAR ENDED APRIL 25, 1998
(IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)
(UNAUDITED)

	SCHOOL SPECIALTY, INC.(C)	SAX ARTS AND CRAFTS(C)	AMERICAN ACADEMIC(C)	NATIONAL SCHOOL SUPPLY(D)	HAMMOND & STEPHENS	SPORTIME
Revenues	$310,455	$5,421	$36,423	$176,034	$9,028	$30,981
Cost of revenues	202,870	3,196	24,382	120,652	4,386	14,467
Gross profit	107,585	2,225	12,041	55,382	4,642	16,514
Selling, general and administrative expenses	87,846	1,722	8,789	50,832	2,555	14,367
Restructuring costs	3,491	--	--	1,198	--	--
Operating income	16,248	503	3,252	3,352	2,087	2,147
Other (income) expense:						
Interest expense	5,505	18	441	5,036	--	--
Interest income	(132)	(3)	--	--	(154)	--
Other	156	--	24	--	--	(45)
Income before provision for income taxes	10,719	488	2,787	(1,684)	2,241	2,192
Provision for income taxes	5,480	189	892	--	--	--
Net income	$ 5,239	$ 299	$ 1,895	$ (1,684)	$2,241	$ 2,192
Weighted average shares:						
Basic	13,284					
Diluted	13,547					
Net income per share:						
Basic	$ 0.40					
Diluted	$ 0.39					

	INDIVIDUALLY INSIGNIFICANT FISCAL 1998 PURCHASE ACQUISITIONS(C)	PRO FORMA ADJUSTMENTS	PRO FORMA COMBINED	PRO FORMA COMMON STOCK OFFERING ADJUSTMENTS	PRO FORMA AS ADJUSTED

Revenues	$28,943	$ --	$ 597,285	$ --	$597,285
Cost of revenues	19,865	--	389,818	--	389,818
Gross profit	9,078	--	207,467	--	207,467
Selling, general and administrative expenses	7,873	295(e) 1,124(f)	175,403	--	175,403
Restructuring costs	--	--	4,689	--	4,689
Operating income	1,205	(1,419)	27,375	--	27,375
Other (income) expense:					
Interest expense	38	5,962(g)	17,000	(3,284)(i)	13,716
Interest income	(4)	293(g)	--	--	--
Other	58	--	193	--	193
Income before provision for income taxes	1,113	(7,674)	10,182	3,284	13,466
Provision for income taxes	140	(795)(h)	5,906	1,315	7,221
Net income	$ 973	$(6,879)	$ 4,276	$ 1,969	$ 6,245
Weighted average shares:					
Basic			15,659(j)		18,059(k)
Diluted			15,922(j)		18,322(k)
Net income per share:					
Basic			$ 0.27		$ 0.35
Diluted			$ 0.27		$ 0.34

SCHOOL SPECIALTY, INC.

NOTES TO PRO FORMA COMBINED FINANCIAL STATEMENTS
(UNAUDITED)
(DOLLARS AND SHARE AMOUNTS IN THOUSANDS)

UNAUDITED PRO FORMA COMBINED BALANCE SHEET ADJUSTMENTS

(a) Adjustment to reflect purchase price adjustments associated with the acquisition of Sportime. The portion of the consideration assigned to goodwill ($13,587) in the transaction accounted for under the purchase method represents the excess of the cost over the fair market value of the net assets acquired. We amortize goodwill over a period of 40 years. The recoverability of the unamortized goodwill will be assessed on an ongoing basis by comparing anticipated undiscounted future cash flows from operations to net book value.

(b) Adjustment to reflect $41,050 of net proceeds from the sale of 2,400 shares of Common Stock as part of the Common Stock offering (net of expenses and underwriting discount) and the utilization of the proceeds to repay $41,050 of long-term debt.

UNAUDITED PRO FORMA COMBINED STATEMENT OF INCOME ADJUSTMENTS

(c) Certain reclassifications have been made to our historical results and the results of the Fiscal 1998 Purchase Acquisitions for the period prior to their respective dates of acquisition for the nine months ended January 24, 1998 and the fiscal year ended April 25, 1998 to conform with the fiscal 1999 presentation. These reclassifications had no effect on net income or net income per share.

(d) The results are for the fiscal year ended March 31, 1998.

(e) Adjustment to reflect additional corporate overhead expenses to be incurred as a stand-alone, publicly traded, entity, rather than as a division of U.S. Office Products.

(f) Adjustment to reflect the increase (decrease) in amortization expense relating to goodwill recorded in purchase accounting related to the Fiscal 1998 and Fiscal 1999 Purchase Acquisitions for the periods prior to the respective dates of acquisition. We have recorded goodwill amortization in the historical financial statements from the respective dates of acquisition forward. The goodwill is being amortized over an estimated life of 40 years.

(g) Adjustment to reflect an increase in interest expense. Interest expense is being calculated on the average pro forma debt outstanding during the applicable periods at a weighted average interest rate of approximately 8.0%. The adjustment also reflects a reduction in interest income to zero as we generally expect to use available cash to repay debt. Pro forma

interest expense will fluctuate approximately $272 on an annual basis for each 0.125% change in interest rates.

(h) Adjustment to calculate the provision for income taxes on the pro forma combined results at an effective income tax rate of approximately 49% for the nine months ended January 23, 1999 and 58% for the nine months ended January 24, 1998 and the fiscal year ended April 25, 1998. The difference between the effective tax rates and the statutory tax rate of 35% relates primarily to state income taxes and nondeductible goodwill.

(i) Adjustment to reflect a decrease in interest expense as a result of the utilization of the net proceeds from the Common Stock offering to repay $41,050 of long-term debt at an annual interest rate of 8%.

(j) The weighted average shares outstanding used to calculate pro forma combined earnings per share is calculated based upon our weighted average shares, adjusted to reflect the

shares sold in the June 1998 initial public offering and the concurrent offering to certain officers and directors, as if these offerings had occurred on April 27, 1997.

(k) The weighted average shares outstanding used to calculate pro forma as adjusted earnings per share is calculated based upon the pro forma weighted average shares described in note (j), adjusted to reflect the 2,400 shares to be sold in the Common Stock offering, as if the Common Stock offering had occurred on April 27, 1997.

INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
American Academic Suppliers Holding Corporation

We have audited the accompanying consolidated balance sheets of AMERICAN ACADEMIC SUPPLIERS HOLDING CORPORATION AND SUBSIDIARY as of December 31, 1995 and 1996, and the related consolidated statements of operations, changes in shareholders' equity and of cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. 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, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of American Academic Suppliers Holding Corporation and Subsidiary as of December 31, 1995 and 1996, and the consolidated results of their operations and their cash flows for the years then ended, in conformity with generally accepted accounting principles.

ALTSCHULER, MELVOIN AND GLASSER LLP

Chicago, Illinois
February 24,1997

AMERICAN ACADEMIC SUPPLIERS HOLDING CORPORATION
AND SUBSIDIARY

CONSOLIDATED BALANCE SHEET

	DECEMBER 31, 1995	DECEMBER 31, 1996	SEPTEMBER 30, 1997 (UNAUDITED)
ASSETS			
Current Assets:			
Cash	$ 7,228	$ 21,507	$ 9,841
Trade accounts receivable (net of allowance for doubtful accounts of $25,000)	4,525,451	3,656,546	13,476,228
Inventories (Note 1)	1,805,731	1,599,140	2,398,435
Other current assets and prepaid expenses	127,673....	173,549	269,234
	6,466,083	5,450,742	16,153,738
Property, Plant and Equipment (less accumulated depreciation -- Notes 1 and 2)	3,081,784	2,949,000	2,845,858
Other Assets:			
Excess of cost over the fair value of net assets acquired (less accumulated amortization of $320,322, $433,022, $509,311, respectively -- Note 1	4,187,938	4,075,238	4,030,878
Deferred financing costs (less accumulated amortization of $21,729, $42,729, and $50,965 respectively -- Note 1)	40,544	19,544	
Deposits	37,581	64,211	
	4,266,063	4,158,993	4,030,878
	$13,813,930	$12,558,735	$23,030,474
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current Liabilities:			
Accounts payable	$ 1,476,312	$ 1,636,969	$ 4,281,450
Current portion of long-term debt (Note 4)	168,673	3,135	10,772,516
Other current liabilities and accrued expenses (Notes 3 and 9)	1,968,780	736,374	2,391,544
	3,613,765	2,376,478	17,445,510
Long-term Liabilities:			
Long-term debt (Note 4)	7,712,187	6,407,152	
Shareholders' Equity:			
Common stock, (10,000 shares of $.01 par value authorized 1,209, 1,232 and 1,232 shares issued and outstanding at December 31, 1995, 1996, and September 30, 1997, respectively -- Note 8)	12	12	12
Additional paid-in capital	5,528,073	5,648,073	5,648,073
Retained earnings (Accumulated deficit)	(1,463,356)	(296,229)	1,513,630
	4,064,729	5,351,856	7,161,715
Excess of Purchase Price over Predecessor Basis (Note 1)	(1,576,751)	(1,576,751)	(1,576,751)
	2,487,978	3,775,105	5,584,964
	$13,813,930	$12,558,735	$23,030,474

The accompanying notes are an integral part of this statement.

AMERICAN ACADEMIC SUPPLIERS HOLDING CORPORATION
AND SUBSIDIARY

CONSOLIDATED STATEMENT OF OPERATIONS

	YEAR ENDED DECEMBER 31,		NINE MONTHS ENDED SEPTEMBER 30,	
	1995	1996	1996	1997
			(UNAUDITED)	
Net Sales	$38,596,316	$39,290,879	$32,578,366	$38,497,843
Cost of Goods Sold	27,050,924	26,667,961	21,985,703	25,916,417
Gross Profit	11,545,392	12,622,918	10,592,663	12,581,426
Selling, General and Administrative Expenses	9,522,851	9,995,206	7,229,895	8,932,382
Income from Operations	2,022,541	2,627,712	3,362,768	3,649,044
Other Expense:				
Interest	1,002,199	856,223	660,753	543,089
Guarantee fees (Note 4)	305,384	148,996	148,996	0
Executive severance (Note 9)	168,750	0	0	0
Amortization of intangibles (Note 1)	133,700	133,700	100,275	120,516
Management fee (Note 8)	112,000	182,000	121,500	198,000
Other	104,574	128,908	81,115	126,523
	1,826,607	1,449,827	1,112,639	988,128
Income before Income Taxes	195,934	1,177,885	2,250,129	2,660,916
Income Tax Provision -- Current	26,000	10,758	8,069	851,057
Net Income	$ 169,934	$ 1,167,127	$ 2,242,060	$ 1,809,859

The accompanying notes are an integral part of this statement.

AMERICAN ACADEMIC SUPPLIERS HOLDING CORPORATION
AND SUBSIDIARY

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY
YEAR ENDED DECEMBER 31, 1995 AND 1996
AND THE NINE MONTHS ENDED SEPTEMBER 30, 1997 (UNAUDITED)

	SHARES ISSUED AND OUTSTANDING	PAR VALUE	ADDITIONAL PAID-IN CAPITAL	RETAINED EARNINGS (ACCUMULATED DEFICIT)	EXCESS OF PURCHASE PRICE OVER PREDECESSOR BASIS	TOTAL SHAREHOLDERS' EQUITY
Balances, December 31, 1994	1,209	$12	$5,528,073	$(1,633,290)	$(1,576,751)	$2,318,044
Net Income, Year Ended December 31, 1995				169,934		169,934
Balances, December 31, 1995	1,209	12	5,528,073	(1,463,356)	(1,576,751)	2,487,978
Issuance of Common Stock (Note 8)	23		120,000			120,000
Net Income, Year Ended December 31, 1996				1,167,127		1,167,127
Balances, December 31, 1996	1,232	12	5,648,073	(296,229)	(1,576,751)	3,775,105
Unaudited data:						
Net Income, Nine Months Ended September 30, 1997				1,809,859		1,809,859
Balances September 30,						

1997 (unaudited).....	1,232	$12	$5,648,073	$ 1,513,630	$(1,576,751)	$5,584,964

See accompanying notes to pro forma combined financial statements.

AMERICAN ACADEMIC SUPPLIERS HOLDING CORPORATION
AND SUBSIDIARY

CONSOLIDATED STATEMENT OF CASH FLOWS

	YEAR ENDED DECEMBER 31,		NINE MONTHS ENDED SEPTEMBER 30,	
	1995	1996	1996	1997
			(UNAUDITED)	
Cash Flows from Operating Activities:				
Net income..................................	$ 169,934	$ 1,167,127	$ 2,242,060	$ 1,809,859
Adjustments to reconcile net income to net cash provided by operating activities:				
Depreciation and amortization............	404,222	381,791	281,842	292,031
Change in assets and liabilities:				
Accounts receivable (net)..............	643,826	868,905	(6,575,016)	(9,819,682)
Inventories............................	172,680	206,591	(523,208)	(799,296)
Other assets...........................	(56,950)	(72,506)	(95,646)	(89,177)
Accounts payable.......................	(140,915)	160,657	2,010,499	2,643,464
Other liabilities and accrued expenses............................	968,782	(1,232,406)	(1,530,288)	1,652,036
Net cash provided by (used in) operating activities.................................	2,161,579	1,480,159	(4,189,757)	(4,310,765)
Cash Flows Used in Investing Activities:				
Purchases of property and equipment.........	(197,298)	(115,307)	(108,329)	(67,282)
Cash Flows from Financing Activities:				
Repayment of revolving line of credit (net)....................................	(1,929,681)	(1,305,935)	4,227,957	5,766,671
Repayment of term loans and mortgage........	(96,046)	(107,306)	(81,277)	(1,400,290)
Principal payment on capital lease obligation...............................	(1,305)	(3,496)		
Repayment of promissory note payable to shareholder..............................		(53,836)		
Proceeds from sale of common stock..........		120,000	120,000	
Net cash provided by (used in) financing activities...............................	(2,027,032)	(1,350,573)	4,266,680	4,366,381
Net Increase (Decrease) in Cash..............	(62,751)	14,279	(31,406)	(11,666)
Cash, Beginning of Year......................	69,979	7,228	7,228	21,507
Cash, End of Year............................	$ 7,228	$ 21,507	$ (24,178)	$ 9,841
Supplemental Disclosure of Cash Flow Information:				
Cash paid during the year for:				
Interest..................................	$ 977,000	$ 864,134	$ 660,753	$ 543,089
Income taxes.............................	$ 4,900	$ 11,046	$	$ 85,000
Supplemental Schedule of Noncash Operating, Investing and Financing Activities:				
Acquisition of equipment financed through capital lease obligation....................	$ 8,953	$	$	$
Conversion of portion of accrued guaranteed fees to a note payable (Note 4)............	$ 53,836	$	$	$

The accompanying notes are an integral part of this statement.

AMERICAN ACADEMIC SUPPLIERS HOLDING CORPORATION
AND SUBSIDIARY

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 -- NATURE OF ACTIVITIES AND SIGNIFICANT ACCOUNTING POLICIES

American Academic Suppliers Holding Corporation ("AASHC") and its wholly owned subsidiary, American Academic Suppliers, Inc. ("AASI") (collectively referred to as the "Company"), is a direct distributor of school supplies, supplementary educational materials, furniture, and equipment to educational institutions, school systems and administrative offices located throughout the United States. Operations are conducted from owned and leased premises located in Cary, Illinois and from leased premises located in Mt. Laurel, New Jersey (Note 7).

On February 28, 1993, AASHC acquired all of the outstanding common stock of AASI for $8,000,000. The acquisition was accounted for using the purchase method of accounting. Since the former shareholders of AASI acquired an equity interest in AASHC, the purchase price allocation has been adjusted by $1,576,751 to reflect the excess of the purchase price over the predecessor basis in the net assets acquired which, under generally accepted accounting principles, may not be recognized as an asset. Such excess of purchase price over predecessor basis was recorded as a reduction of the excess of cost over the fair value of net assets acquired and as a decrease in shareholders' equity as of the date of acquisition.

The Company primarily sells its products to separate schools or school systems. As such, the majority of trade accounts receivable relate primarily to these customers. Management believes that the recorded allowance for doubtful accounts is adequate to cover potential losses associated with these customers.

In the opinion of management, the Company has made all adjustments consisting only of normal recurring accruals, necessary for a fair presentation of the financial condition of the Company as of September 30, 1997 and the results of its operations and its cash flows for the nine months ended September 30, 1996 and 1997, as presented in the accompanying unaudited interim financial statements.

In preparing financial statements in conformity with generally accepted accounting principles, management makes estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements, as well as the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

A summary of significant accounting policies is as follows:

Principles of Consolidation -- The consolidated financial statements include the accounts of AASHC and its wholly owned subsidiary, AASI. All intercompany accounts and balances have been eliminated in the consolidation.

Inventories -- Inventories are valued at the lower of cost or market, with cost determined under the first-in, first-out ("FIFO") basis.

Depreciation and Amortization -- Depreciation of property, plant and equipment is computed under both accelerated and straight-line methods for financial reporting purposes, based on the estimated useful lives of the assets. For income tax reporting purposes, provisions for depreciation are computed principally under accelerated methods, as permitted by the Internal Revenue Code.

The excess of cost over fair value of net assets acquired is being amortized under the straight-line method over a period of 40 years.

NOTE 1 -- NATURE OF ACTIVITIES AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Costs incurred in connection with obtaining long-term financing are amortized, on a straight-line basis, over the term of the financing commitment.

Income Taxes -- The Company accounts for income taxes under the provisions of Financial Accounting Standard No. 109. Under this standard, deferred tax assets and liabilities are determined based on differences between financial reporting and tax bases of assets and liabilities and are measured using the enacted tax rates and laws that will be in effect when the differences are expected to reverse. Valuation allowances are established when necessary to reduce deferred tax assets to the amount expected to be realized.

NOTE 2 -- PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment, at December 31, 1995 and 1996, stated at acquisition cost, consisted of the following:

	1995	1996
Land	$ 415,000	$ 415,000
Buildings	2,333,828	2,335,258
Warehouse equipment	603,590	638,976
Office furniture and equipment	249,060	255,613
Computer equipment	173,285	245,223
Total owned assets	3,774,763	3,890,070
Equipment capitalized under lease obligation	8,953	8,953
	3,783,716	3,899,023
Less accumulated depreciation	(701,932)	(950,023)
	$3,081,784	$2,949,000

Depreciation of property, plant, and equipment, for the years ended December 31, 1995 and 1996, amounted to approximately $270,500 and $248,000, respectively.

NOTE 3 -- OTHER CURRENT LIABILITIES AND ACCRUED EXPENSES

Other current liabilities and accrued expenses, at December 31, 1995 and 1996, consisted of the following:

	1995	1996
Compensation and commissions	$1,037,714	$390,037
Guarantor's fee (Note 4)	305,383	0
Severance pay (Note 9)	170,442	0
Real estate taxes	77,253	80,385
Interest	67,971	60,060
Other	310,017	205,892
	$1,968,780	$736,374

NOTE 4 -- LONG-TERM DEBT

Long-term debt, at December 31, 1995 and 1996, consisted of the following:

	1995	1996
Borrowings from Harris Trust and Savings Bank ("Harris") pursuant to a Credit Agreement ("Agreement") (see below):		
Revolving credit loan borrowings	$5,787,922	$4,481,987
Term loan borrowings	521,422	467,231
Mortgage note payable to Harris Bank Barrington, N.A. (secured by real estate occupied by the Company; payable in monthly installments, inclusive of interest at prime plus 1 1/2%, of $16,600; final maturity on December 16, 1999. Fully paid subsequent to year-end)	1,510,032	1,456,917
Promissory note payable to Pfingsten Executive Fund, L.P. (bearing interest at 10% per annum; paid in full during 1996)	53,836	
Capitalized lease obligation (payable in monthly installments of $291, inclusive of interest at 10%; final maturity June 7, 1998)	7,648	4,152
	7,880,860	6,410,287
Less current portion	168,673	3,135
Long-term portion, due in 1998	$7,712,187	$6,407,152

At December 31, 1996, the Harris Agreement provided maximum aggregate borrowings of $12,077,500. Interest on outstanding borrowings was payable monthly, at the prime rate (8.25% at December 31, 1996) plus 1%. The Company had availability under the Agreement of $1,100,000 at December 31, 1996. Pfingsten Executive Fund, L.P. (the Company's majority shareholder) had guaranteed $1,500,000 of the borrowings (reduced from $3,000,000 effective December 31, 1995) under the Agreement. Guarantee fees are charged to the Company at 10% per annum, which amounted to $305,384 and $148,996 for the years ended December 31, 1995 and 1996. The guarantees were released by Harris on October 31, 1996.

On February 4, 1997, the Agreement with Harris was amended ("Amended Agreement") to provide maximum aggregate borrowings of $16,800,000 from June 1 through October 31, and $11,800,000 at all other times. Revolving credit loan borrowings, under the Amended Agreement which expires March 31, 1998, are limited to a computed "Borrowing Base" amount and bear interest at the Company's option at the prime rate or LIBOR plus 1.75%. The Amended Agreement requires the Company to pay .25% per annum on the average daily unused portion of the Revolving Credit Commitment and to pay a prepayment penalty in certain situations.

The Amended Agreement contains covenants restricting certain corporate acts, such as restricting dividend and management fee payments, and requiring the maintenance of net worth levels and a financial ratio.

Borrowings under the agreement with Harris are secured by all of the Company's assets.

On February 4, 1997, the Company repaid the mortgage note and term loan from borrowings under the revolving credit loan.

Borrowings under the revolving credit, term loan and mortgage note at December 31, 1996 have been reported as long-term liabilities at December 31, 1996 as a result of the Amended Agreement and repayment of the mortgage note and term loan.

NOTE 5 -- INCOME TAXES

AASHC and its wholly owned subsidiary file a consolidated federal income tax return.

The primary differences between the statutory and effective tax rates for 1995 and 1996 relate to the use of net operating loss carryforwards not previously recognized.

Gross deferred income tax assets consist primarily of (a) net operating loss carryforwards, (b) accrued expenses not paid within two and one-half months after the end of the Company's year which are deductible for tax reporting purposes when paid, and (c) uniform capitalization rules (for additional inventory costs) reflected for tax reporting purposes only. The gross deferred income tax liability consists of the variation in the book and tax bases of property, plant and equipment.

At December 31, 1995 and 1996, the Company's net deferred income tax asset and related valuation allowance consisted of:

	1995	1996
Gross deferred tax asset	$828,000	$262,000
Less valuation allowance	517,000	84,000
Deferred tax asset, net of valuation allowance	311,000	178,000
Less deferred tax liability	311,000	178,000
	$ --	$ --

The valuation allowance decreased by $112,799 and $433,000 during 1995 and 1996, respectively.

At December 31, 1996, the Company has available, as a carryforward to future years, a federal net operating loss carryforward of approximately $560,000, expiring in 2008 and 2009.

NOTE 6 -- EMPLOYEE BENEFIT PLAN

The Company is a participant in a Pfingsten Partners, L.P. master employee benefit plan. The plan, established under the provisions of Section 401(k) of the Internal Revenue Code provides, among other things, for the Company to make discretionary contributions. Such employer contributions to the plan, for the years ended December 31, 1995 and 1996, amounted to $43,427 and $24,534, respectively.

Certain professionals of Pfingsten Partners, L.P. (Note 8) serve as the trustees of the plan.

NOTE 7 -- LEASES

The Company leases an office building and a warehouse under various operating agreements which expire in 1998. The office building lease is renewable at the Company's option for 36 additional months with an escalated monthly payment. Rent expense incurred under these leases, for the years ended December 31, 1995 and 1996, totalled approximately $253,000 and $251,000, respectively.

NOTE 7 -- LEASES (CONTINUED)

Future minimum lease payments under the aforementioned operating leases, at December 31, 1996, are as follows:

1997	$258,000
1998	73,000
	$331,000

NOTE 8 -- SHAREHOLDERS' EQUITY AND RELATED-PARTY TRANSACTIONS

During the year ended December 31, 1996, the Company issued 23 shares of common stock to certain officers for $120,000 in cash.

For the years ended December 31, 1995 and 1996, the Company incurred $112,000 and 182,000, respectively, in fees pursuant to a management agreement with Pfingsten Partners, L.P., which entity is an affiliate of the Company's majority shareholder, Pfingsten Executive Fund, L.P.

During the years ended December 31, 1995 and 1996, approximately $15,300 and $6,900, respectively, in consulting services were paid by Pfingsten Partners, L.P., on behalf of the Company, and charged to the Company. Additionally, at December 31, 1995, $12,000 was owed to a shareholder of the Company for services rendered during 1995.

See Notes 3 and 4 for additional related-party transactions.

NOTE 9 -- SEVERANCE AGREEMENTS

During December 1995, the Company terminated its employment agreement with its president and recognized a $168,750 charge to operations to cover the cost associated with this termination. The related amount owed pertaining to the aforementioned charge, as well as a 1993 termination, at December 31, 1995, was $170,442. There were no outstanding amounts at December 31, 1996.

NOTE 10 -- SUBSEQUENT EVENT (UNAUDITED)

Effective December 15, 1997, the Company and its stockholders entered into a definitive agreement with U.S. Office Products Company ("U.S. Office Products") pursuant to which U.S. Office Products acquired all outstanding shares of the Company's common stock in exchange for cash.

REPORT OF INDEPENDENT ACCOUNTANTS

To the Board of Directors
of Sax Arts and Crafts, Inc.

In our opinion, the accompanying balance sheets and related statements of operations, of shareholder's equity and of cash flows present fairly, in all material respects, the financial position of Sax Arts and Crafts, Inc. at December 16, 1995 and December 25, 1996, and the results of its operations and its cash flows for each of the three years in the period ended December 25, 1996 in conformity with generally accepted accounting principles. These financial statements are the responsibility of the Company's management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with generally accepted auditing standards which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the accounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for the opinion expressed above.

PRICEWATERHOUSECOOPERS LLP

Minneapolis, Minnesota
February 3, 1998

SAX ARTS AND CRAFTS, INC.

BALANCE SHEETS

	DECEMBER 16, 1995	DECEMBER 25, 1996	JUNE 29, 1997
			(UNAUDITED)
ASSETS			
Current assets:			
Cash	$ 102,900	$ 114,492	$ 109,544
Accounts receivable -- trade, less allowance for doubtful accounts of $31,860,$49,860 and $37,448, respectively	4,656,651	4,383,464	4,114,798
Inventories	5,591,557	5,441,664	7,145,216
Prepaid expenses and other current assets	856,943	429,741	747,466
Total current assets	11,208,051	10,369,361	12,117,024
Net property, plant and equipment	1,034,648	820,827	658,356
Other assets	42,477	26,506	26,506
Total assets	$12,285,176	$11,216,694	$12,801,886
LIABILITIES AND SHAREHOLDER'S EQUITY			
Current liabilities:			
Accounts payable -- trade	$ 4,210,593	$ 1,947,833	$ 3,403,006
Affiliate payable, net	3,212,473	1,806,645	3,130,496
Accrued income taxes	1,802,399	1,814,139	401,063
Other accrued expenses	684,089	806,241	856,057
Total current liabilities	9,909,554	6,374,858	7,790,622
Deferred income taxes	42,256	16,202	16,202
Other liabilities	69,195	69,197	92,000
Total liabilities	10,021,005	6,460,257	7,898,824
Shareholder's equity:			
Common stock, $1.00 par value, 1,000 shares authorized, issued and outstanding	1,000	1,000	1,000
Capital surplus -- additional paid-in capital	1,507,597	1,507,597	1,507,597
Retained earnings	755,574	3,247,840	3,394,465
Total shareholder's equity	2,264,171	4,756,437	4,903,062
Total liabilities and shareholder's equity	$12,285,176	$11,216,694	$12,801,886

See accompanying notes to financial statements.

SAX ARTS AND CRAFTS, INC.

STATEMENTS OF OPERATIONS

	YEAR ENDED			SIX MONTHS ENDED	
	DECEMBER 17, 1994	DECEMBER 16, 1995	DECEMBER 25, 1996	JUNE 30, 1996	JUNE 29, 1997
				(UNAUDITED)	
Net sales	$29,169,879	$33,239,883	$34,350,947	$11,125,967	$13,009,456
Cost of sales	16,369,453	19,029,918	20,078,806	6,562,838	8,286,522
Gross profit	12,800,426	14,209,965	14,272,141	4,563,129	4,722,934
Selling, administrative and other expenses	8,401,463	9,169,667	9,734,256	4,379,178	4,427,608
Operating earnings	4,398,963	5,040,298	4,537,885	183,951	295,326

Other income (expense), net	(510,508)	(545,302)	(476,886)	(222,759)	(52,971)
Earnings before income taxes	3,888,455	4,494,996	4,060,999	(38,808)	242,355
Income taxes	1,502,315	1,738,191	1,568,733	(14,351)	95,730
Net earnings (loss)	$ 2,386,140	$ 2,756,805	$ 2,492,266	$ (24,457)	$ 146,625

See accompanying notes to financial statements.

SAX ARTS AND CRAFTS, INC.

STATEMENTS OF SHAREHOLDERS' EQUITY

	COMMON STOCK		ADDITIONAL PAID-IN CAPITAL	RETAINED EARNINGS	TOTAL SHAREHOLDER'S EQUITY
	SHARES	AMOUNT			
Balance, December 18, 1993	1,000	$1,000	$1,507,597	$ 512,629	$ 2,021,226
Dividends				(2,400,000)	(2,400,000)
Net income				2,386,140	2,386,140
Balance, December 17, 1994	1,000	1,000	1,507,597	498,769	2,007,366
Dividends				(2,500,000)	(2,500,000)
Net income				2,756,805	2,756,805
Balance, December 16, 1995	1,000	1,000	1,507,597	755,574	2,264,171
Net income				2,492,266	2,492,266
Balance, December 25, 1996	1,000	1,000	1,507,597	3,247,840	4,756,437
Net income (unaudited)				146,625	146,625
Balance, June 29, 1997 (unaudited)	1,000	$1,000	$1,507,597	$ 3,394,465	$ 4,903,062

See accompanying notes to financial statements.

SAX ARTS AND CRAFTS, INC.

STATEMENTS OF CASH FLOWS

	YEAR ENDED			SIX MONTHS ENDED	
	DECEMBER 17, 1994	DECEMBER 16, 1995	DECEMBER 25, 1996	JUNE 30, 1996	JUNE 29, 1997
				(UNAUDITED)	
Cash flows from operating activities:					
Net earnings (loss)	$ 2,386,140	$ 2,756,805	$ 2,492,266	$ (24,457)	$ 146,625
Adjustments to reconcile net earnings (loss) to cash provided by operating activities:					
Depreciation and amortization	327,489	340,556	371,516	178,529	153,891
Deferred income taxes	599	(30,302)	(26,054)	--	--
Gain on disposal of fixed assets	(5,350)	(21,505)	(6,578)	(6,205)	(23,234)
Impact on cash flow from changes in working capital:					
Accounts receivable	(185,934)	(734,239)	273,187	1,403,353	268,666
Inventory	(659,936)	144	149,893	(2,287,194)	(1,703,552)
Other current assets	(632,521)	(56,442)	427,202	(109,614)	(317,726)
Accounts payable	155,519	2,590,011	(2,262,760)	(2,172,326)	1,455,174
Affiliates payable	942,481	(2,521,286)	(1,405,828)	2,927,060	1,323,851
Accrued expenses	(212,673)	656,493	133,894	27,125	(1,340,457)

Net cash provided by (used in) operating activities	2,115,814	2,980,235	146,738	(63,729)	(36,762)
Cash flows from investing activities:					
Purchased property, plant and equipment	(196,752)	(473,305)	(157,695)	(9,789)	(27,006)
Proceeds from sales of assets	5,350	21,505	6,578	11,450	58,820
Increase in other assets	--	--	15,971	15,971	--
Net cash provided by (used in) investing activities	(191,402)	(451,800)	(135,146)	17,632	31,814
Cash flows from financing activities:					
Dividend payment	(2,400,000)	(2,500,000)	--	--	--
Net cash used in financing activities	(2,400,000)	(2,500,000)	--	--	--
Net increase (decrease) in cash	(475,588)	28,435	11,592	(46,097)	(4,948)
Cash at beginning of period	550,053	74,465	102,900	102,900	114,492
Cash at end of period	$ 74,465	$ 102,900	$ 114,492	$ 56,803	$ 109,544
Supplemental disclosures of cash flow information:					
Cash paid for interest	$ 91,585	$ 390	$ --	$ --	$ 23
Cash paid for taxes	$ 1,540,000	$ 1,480,000	$ 1,780,000	$ 141,000	$ 95,000

See accompanying notes to financial statements.

SAX ARTS AND CRAFTS, INC.

NOTES TO FINANCIAL STATEMENTS

NOTE 1 -- ORGANIZATION AND OPERATIONS

Sax Arts and Crafts, Inc. (the "Company") is a national mail order distributor of art and craft supplies to schools and educational institutions. Sax Arts and Crafts, Inc. is a wholly-owned subsidiary of Day-Timers, Inc. (the "Parent"). The Parent is owned by ACCO World Corporation ("ACCO"), which is a wholly-owned subsidiary of Fortune Brands International ("Fortune Brands"). On June 30, 1997, the Company and its shareholder entered into a definitive agreement with U.S. Office Products Company ("U.S. Office Products") pursuant to which the Company was acquired by U.S. Office Products. All outstanding shares of the Company were exchanged for cash.

NOTE 2 -- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

FISCAL YEAR

The Company's fiscal year ends on the third Saturday in December. Fiscal year 1994 ended on December 17, 1994 and fiscal year 1995 ended on December 16, 1995. In 1996, the Company's fiscal year end was changed to December 25, 1996 in order to comply with the closing date of the Parent. As a result, fiscal 1996 has 53 weeks.

UNAUDITED INTERIM FINANCIAL STATEMENTS

In the opinion of management, the Company has made all adjustments consisting only of normal recurring accruals, necessary for a fair presentation of the financial condition of the Company as of June 29, 1997 and the results of its operations and its cash flows for the six months ended June 30, 1996 and June 29, 1997, as presented in the accompanying unaudited interim financial statements.

USE OF ESTIMATES

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

REVENUE RECOGNITION

The Company recognizes revenue upon shipment of the product as obligations subsequent to delivery are not significant.

CONCENTRATION OF CREDIT RISK

Financial instruments that potentially subject the Company to a concentration of credit risk consist principally of accounts receivable. The Company provides products to a wide range of customers who primarily operate in the education sector. The Company does not believe it is exposed to any undue concentration of credit risk based on the strong credit history of the Company's customer base.

INCOME TAXES

The Company is part of a consolidated tax group with its Parent. For purposes of these financial statements, income taxes have been provided as if the Company filed a separate tax

SAX ARTS AND CRAFTS, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE 2 -- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)
return. Income taxes are calculated in accordance with the liability method of accounting for income taxes as provided by Statement of Financial Accounting Standards No. 109, "Accounting for Income Taxes." Deferred taxes are provided on temporary differences between book and tax basis of assets and liabilities which will have a future impact on taxable income.

NOTE 3 -- INVENTORIES

Inventories are recorded at cost (not in excess of market value) as determined by the weighted average cost method. Inventories are comprised as follows:

	DECEMBER 16, 1995	DECEMBER 25, 1996
Finished goods	$5,647,290	$5,493,859
Less -- Reserves	55,733	52,195
Total inventory	$5,591,557	$5,441,664

NOTE 4 -- PROPERTY, PLANT AND EQUIPMENT

The major classes are:

	DECEMBER 16, 1995	DECEMBER 25, 1996
Buildings and improvements	$ 129,302	$ 120,045
Automobiles	251,382	245,403
Machinery and equipment	1,463,156	1,482,480
Computer hardware and software	806,755	982,415
Construction in progress	157,534	58,544
Total cost	2,808,129	2,888,887
Less -- Accumulated depreciation	(1,773,481)	(2,068,060)
Net property, plant and equipment	$ 1,034,648	$ 820,827

Depreciation is generally computed on a straight-line method over the estimated useful lives of the assets including assets acquired by capital leases. Accelerated depreciation is used for income tax purposes where permitted. Depreciation expense recorded for the years ended December 17, 1994, December 16, 1995 and December 25, 1996 was $327,489, $340,556 and $371,516, respectively.

NOTE 5 -- INCOME TAXES

The income tax provision consists of the following components:

	DECEMBER 17, 1994	DECEMBER 16, 1995	DECEMBER 25, 1996
Current portion:			
Federal	$1,292,616	$1,522,247	$1,372,728
State	209,100	246,246	222,059
	1,501,716	1,768,493	1,594,787
Deferred portion:			
Federal	516	(26,083)	(22,426)
State	83	(4,219)	(3,628)
	599	(30,302)	(26,054)
Income tax provision	$1,502,315	$1,738,191	$1,568,733

Deferred tax assets (liabilities) consist of the following:

	DECEMBER 16, 1995	DECEMBER 25, 1996
Accruals	$ 58,944	$ 64,186
Asset reserves	12,585	19,693
Inventories	17,370	15,610
Pension	41,828	39,066
Gross deferred tax assets	130,727	138,555
Depreciation	(172,983)	(154,757)
Gross deferred tax liabilities	(172,983)	(154,757)
Net deferred tax liability	$ (42,256)	$ (16,202)

The effective rate for income taxes differs from the statutory rate as follows:

	DECEMBER 17, 1994	DECEMBER 16, 1995	DECEMBER 25, 1996
U.S. federal statutory tax rate	34.0%	34.0%	34.0%
Non-deductible expenses	0.1	0.2	0.1
State income taxes, net of federal benefit	5.5	5.5	5.5
Other	(1.0)	(1.0)	(1.0)

	38.6%	38.7%	38.6%

NOTE 6 -- RELATED PARTY TRANSACTIONS

The affiliates payable component on the balance sheet represents the net balance payable to the Parent and its affiliates. Interest is charged to the Company on the outstanding balance. An analysis of the activity in this account is as follows:

	DECEMBER 17, 1994	DECEMBER 16, 1995	DECEMBER 25, 1996
Balance at beginning of period	$(4,791,279)	$(5,733,759)	$(3,212,473)
Cost allocations and direct charges from Parent	(59,981)	(24,414)	(73,569)
Interest charged by Parent	(421,370)	(602,674)	(528,324)
Intercompany sales	--	273,106	471,794
Cash transfers	(461,129)	2,875,268	1,535,927
Balance at end of period	$(5,733,759)	$(3,212,473)	$(1,806,645)

The Company has the following affiliated receivables and payables:

	DECEMBER 16, 1995	DECEMBER 25, 1996
Receivable from:		
Day-Timers Canada	$ 11,054	$ 186,581
Fortune Brands	--	648,932
Total	$ 11,054	$ 835,513
Payable to:		
ACCO	$(2,089,941)	$(2,618,265)
Parent	(21,202)	(23,893)
Fortune Brands	(1,112,384)	--
Total	$(3,223,527)	$(2,642,158)

Services provided to the Company by the Parent and its affiliates include expenses incurred and paid by the Parent on the Company's behalf and charges for accounting and payroll functions provided by the Parent. The primary components of cost allocations and direct charges from the Parent and affiliates are as follows:

	DECEMBER 17, 1994	DECEMBER 16, 1995	DECEMBER 25, 1996
Payroll and accounting function			$38,950
Employee benefits	$34,922		
Insurance	21,009	$21,202	29,222
Bank charges	4,050	3,212	5,397
	$59,981	$24,414	$73,569

NOTE 7 -- LEASE COMMITMENTS

FISCAL YEAR	DECEMBER 25, 1996
1997	$ 506,847
1998	417,091
1999	334,447
2000	319,545
2001 and thereafter	399,431
Total minimum lease payments	$1,977,361

Rental expense for all operating leases charged against earnings amounted to $553,198, $546,603 and $559,830 for the years ended December 17, 1994, December 16, 1995 and December 25, 1996, respectively.

NOTE 8 -- RETIREMENT PLAN

Nonunion employees of the Company participate in a noncontributory defined benefit plan established by the Parent. Benefits for the plan are based primarily on years of service and employees' average monthly earnings. The Parent's funding policy is consistent with the funding requirements of federal law and regulations. Plan assets consist principally of listed equity securities. Participants are fully vested in the plan after completing five years of service.

As of the most recent actuarial valuation, the total pension costs for the Parent for the year ended December 25, 1996 consisted of the following:

	TOTAL PARENT'S PLAN
Service cost -- benefits earned during the period	$1,479,787
Interest cost on projected benefit obligation	1,640,620
Expected return on plan assets	(1,783,635)
Amortization of unrecognized prior service cost	(6,752)
All other cost components	40,302
Net pension costs	$1,370,322

The net pension costs of the plan for the years ended December 17, 1994, December 16, 1995 and December 25, 1996 allocated to the Company by the Parent were $86,000, $94,000 and $108,000, respectively.

NOTE 8 -- RETIREMENT PLAN (CONTINUED)

As of the most recent actuarial valuation, the funded status of the plan for the Parent as of December 25, 1996 is as follows:

	TOTAL PARENT'S PLAN
Actuarial present value of benefit obligations:	
Vested benefits	$17,629,613
Non-vested benefit	1,458,142
Accumulated benefit obligation	19,087,755
Effect of projected future compensation increases	5,300,546
Projected benefit obligation	24,388,301
Plan assets at fair value	22,052,322
Projected benefit obligation in excess of plan assets	(2,335,979)
Unrecognized prior service cost	(32,672)
Unrecognized net gain	(60,338)
Accrued pension costs	$(2,428,989)

The accrued pension costs at December 16, 1995 and December 31, 1996 attributed to the Company were $183,000 and $177,000, respectively.

Upon being acquired by U.S. Office Products, the plan was terminated for the Company's plan participants and the net assets will be distributed for their benefit.

NOTE 9 -- OTHER POSTRETIREMENT PLAN

The Parent provides health care and life insurance benefits for eligible retired employees and their eligible dependents. The cost of these benefits was determined by application of actuarial assumptions and healthcare trend rates. Based on the actuarial valuations performed for the years ended December 17, 1994, December 16, 1995 and December 25, 1996, the total net periodic postretirement costs (benefit) allocated by the Parent to the Company were $10,000, $2,000 and $(1,000), respectively.

The accrued other postretirement costs as of the years ended December 16, 1995 and December 25, 1996 attributed to the Company were $141,000 and $129,000, respectively.

Upon being acquired by U.S. Office Products, the plan was terminated for the Company's plan participants and the net assets will be distributed for their benefit.

REPORT OF INDEPENDENT AUDITORS

The Board of Directors
The National School Supply Company

We have audited the accompanying consolidated balance sheets of The National School Supply Company and Subsidiaries as of March 31, 1998 and 1997, and the related consolidated statements of operations, stockholders' equity, and cash flows for each of the three years in the period ended March 31, 1998. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. 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, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of The National School Supply Company and Subsidiaries as of March 31, 1998 and 1997, and the results of their operations and their cash flows for each of the three years in the period ended March 31, 1998, in conformity with generally accepted accounting principles.

ERNST & YOUNG LLP

Cleveland, Ohio
June 11, 1998, except for Note C,
as to which the date is June 17, 1998

THE NATIONAL SCHOOL SUPPLY COMPANY AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS
(IN THOUSANDS, EXCEPT FOR SHARE DATA)

	MARCH 31, 1998	MARCH 31, 1997	JUNE 30, 1998 (UNAUDITED)
ASSETS			
Current assets:			
Cash and cash equivalents	$ 1,235	$ 5,207	$ 1,517
Accounts receivable, less allowance of $1,352 at June 30, 1998 and $1,386 and $1,410 at March 31, 1998 and 1997, respectively	21,965	18,846	26,205
Inventories	22,745	14,362	30,532
Prepaid catalog costs	5,286	4,486	4,577
Prepaid and other	864	149	592
Total current assets	52,095	43,050	63,423
Property, plant and equipment -- Notes A, B, C and G:			
Land and improvements	1,316	1,295	1,335
Building and improvements	14,452	14,303	14,469
Machinery, equipment and furniture	12,059	11,301	12,419
	27,827	26,899	28,223
Less accumulated depreciation and amortization	9,283	7,097	9,865
Total property, plant and equipment	18,544	19,802	18,358
Intangible assets, net -- Notes B and C	13,266	14,799	12,886
Other long-term assets	221	221	221
Total assets	$ 84,126	$ 77,872	$ 94,888
LIABILITIES AND STOCKHOLDERS' EQUITY			
Current liabilities:			
Accounts payable	$ 15,787	$ 8,318	$ 20,578
Accrued expenses -- Note A	6,263	7,059	5,889
Current portion of long-term obligations -- Notes C and G	3,084	4,036	3,085
Total current liabilities	25,134	19,413	29,552
Long-term obligations -- Notes C and G			
Long-term debt:			
Due to bank and others	22,360	20,193	29,464
Due to affiliated companies	20,225	19,929	20,295
	42,585	40,122	49,759
Other	1,165	1,411	1,110
Total long-term obligations	43,750	41,533	50,869
Stockholders' equity -- Notes D and E: Common Stock, $0.01 par value per share:			
Class A:			
Authorized shares -- 4,175,000			

Issued and outstanding shares -- 3,230,300	32	32	32
Class B:			
Authorized shares -- 1,548,000			
Issued and outstanding shares -- 1,500,042	15	15	15
Class C:			
Authorized shares -- 550,000			
Issued and outstanding shares -- 427,487	4	4	4
Capital in excess of par value	45,690	45,690	45,690
Accumulated deficit	(30,499)	(28,815)	(31,274)
Total stockholders' equity	15,242	16,926	14,467
Total liabilities and stockholders' equity	$ 84,126	$ 77,872	$ 94,888

See accompanying notes to consolidated financial statements.

THE NATIONAL SCHOOL SUPPLY COMPANY AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF OPERATIONS
(IN THOUSANDS)

	YEAR ENDED MARCH 31,			THREE MONTHS ENDED JUNE 30,	
	1998	1997	1996	1998	1997
				(UNAUDITED)	
Net sales	$176,034	$174,637	$164,994	$38,772	$34,896
Cost of goods sold	115,134	111,054	106,293	24,914	22,569
Gross profit	60,900	63,583	58,701	13,858	12,327
Selling, general and administrative expenses	52,398	50,879	54,419	12,393	12,226
Depreciation	2,419	2,735	2,889	582	621
Amortization	1,533	1,525	3,194	380	379
Restructuring costs -- Note A	1,198	1,381	4,343	76	62
Goodwill write-down			1,864		
Operating income (loss)	3,352	7,063	(8,008)	427	(961)
Interest expense, net	5,036	7,375	8,685	1,202	1,097
Loss before income taxes and extraordinary gain	(1,684)	(312)	(16,693)	(775)	(2,058)
Provision for income taxes -- Note F	--	--	--	--	--
Loss before extraordinary gain	(1,684)	(312)	(16,693)	(775)	(2,058)
Extraordinary gain from debt restructuring, net of income taxes -- Note C	--	564	--	--	--
Net (loss) income	(1,684)	252	(16,693)	(775)	(2,058)

See accompanying notes to consolidated financial statements.

THE NATIONAL SCHOOL SUPPLY COMPANY AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY
(IN THOUSANDS)

COMMON STOCK			CAPITAL IN EXCESS OF PAR VALUE	ACCUMULATED DEFICIT	TOTAL STOCKHOLDERS' EQUITY
CLASS A	CLASS B	CLASS C			

Balance at April 1, 1995.........	$ 1	$15	$4	$15,271	$(12,374)	$ 2,917
Net loss.........................	--	--	--	--	(16,693)	(16,693)
Balance at March 31, 1996........	1	15	4	15,271	(29,067)	(13,776)
Net income.......................					252	252
Stock issued -- Note A...........	31	--	--	30,419	--	30,450
Balance at March 31, 1997........	32	15	4	45,690	(28,815)	16,926
Net loss.........................	--	--	--	--	(1,684)	(1,684)
Balance at March 31, 1998........	32	15	4	45,690	(30,499)	15,242
Net loss (unaudited).............	--	--	--	--	(775)	(775)
Balance at June 30, 1998 (unaudited)....................	$32	$15	$4	$45,690	$(31,274)	$ 14,467

See accompanying notes to consolidated financial statements.

THE NATIONAL SCHOOL SUPPLY COMPANY AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF CASH FLOWS
(IN THOUSANDS)

	YEAR ENDED MARCH 31,			THREE MONTHS ENDED JUNE 30,	
	1998	1997	1996	1998	1997
				(UNAUDITED)	
Cash flows for operating activities					
Net (loss) income...............................	$(1,684)	$ 252	$(16,693)	$ (775)	$ (2,058)
Adjustments to reconcile net (loss) income to net cash (used) provided by operating activities:					
Extraordinary gain............................	--	(564)	--	--	--
Depreciation and amortization................	3,952	4,260	6,083	962	1,000
Compensation expense from issuance of stock.....................................	--	450	--	--	--
Loss on sale of property, plant and equipment................................	--	--	600	--	--
Write-down of assets held for sale...........	--	--	1,012	--	--
Goodwill write-down..........................	--	--	1,864	--	--
Provision for losses on accounts receivable................................	--	--	2,806	--	--
Other..	295	635	545	70	80
Change in operating assets and liabilities:					
Accounts receivable.......................	(3,119)	7,131	(5,258)	(4,240)	(4,456)
Inventories...............................	(8,383)	7,313	4,309	(7,787)	(13,084)
Prepaid and other current assets..........	(1,515)	349	(488)	981	(901)
Accounts payable..........................	7,469	(8,697)	(3,290)	4,791	13,354
Accrued expenses..........................	(796)	(610)	878	(374)	(1,754)
Other non-current assets and liabilities...	(246)	(794)	(287)	--	--
Net cash (used) provided by operating activities....................................	(4,027)	9,725	(7,919)	(6,372)	(7,819)
Cash flows used in investing activities					
Additions to property, plant and equipment, net...	(1,168)	(1,551)	(4,890)	(396)	(510)
Proceeds from sale of property and equipment.....	7	1,353	1,842	--	--
Net cash used in investing activities............	(1,161)	(198)	(3,048)	(396)	(510)
Cash flows provided (used) by financing activities....................................					
Net borrowings (payments) on revolving credit....	5,191	(7,000)	7,000	7,372	4,173
Proceeds from issuance of long-term debt.........	--	937	4,489		
Payments on long-term debt.......................	(3,966)	(28,400)	--	(250)	(251)
Prepayment penalties on long-term debt...........	--	(983)	--	--	--
Net payments on capital leases...................	(9)	(570)	(663)	(72)	(15)
Proceeds from issuance of stock..................	--	30,000	--	--	--
Net cash provided (used) by financing activities....................................	1,216	(6,016)	10,826	7,050	3,907

Net (decrease) increase in cash and cash equivalents	(3,972)	3,511	(141)	282	(4,422)
Cash and cash equivalents at beginning of year	5,207	1,696	1,837	1,235	5,207
Cash and cash equivalents at end of year	$ 1,235	$ 5,207	$ 1,696	$ 1,517	$ 785
Supplemental disclosure of cash flow information					
Interest paid	$ 5,026	$ 8,481	$ 7,183	$ 1,173	$ 955
Properties acquired under capital leases			$ 377		

See accompanying notes to consolidated financial statements.

THE NATIONAL SCHOOL SUPPLY COMPANY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
YEARS ENDED MARCH 31, 1998, 1997 AND 1996
THREE MONTHS ENDED JUNE 30, 1998 AND 1997 (UNAUDITED)

NOTE A -- ORGANIZATION AND NATURE OF THE BUSINESS

The National School Supply Company and its subsidiaries ("the Company") are engaged in the distribution of educational supplies and equipment, teaching aids, school furniture and instructional materials for science, art and technology education. The Company sells primarily to elementary, secondary and vocational schools and early learning centers throughout the United States. The products are marketed through catalogs which carry the names of Beckley-Cardy, Frey Scientific, Pyramid Art Supply and Brodhead-Garrett.

The Company's business is seasonal in nature, corresponding to the purchasing cycle of school systems. Because of seasonality, a substantial part of annual revenues and operating income is realized in the second quarter of the fiscal year.

Effective November 5, 1992, certain limited partnerships affiliated with Butler Capital Corporation (Butler) formed Beckley-Cardy, Inc. (Beckley) to acquire a subsidiary of Advanstar Communications, Inc., a company which had recently emerged from Chapter 11 bankruptcy. The acquisition was accounted for as a purchase and, accordingly, the purchase price of $49,000,000 was allocated to the underlying assets and liabilities based on their estimated fair values as of the acquisition date. The excess of the purchase price over the estimated fair value of the net assets acquired ($21,430,000) was classified as intangible assets.

Effective September 14, 1993, the Company (which was 60% owned by Butler at that date), Butler, Beckley and certain individual stockholders of the Company entered into an Agreement of Merger and Plan of Reorganization whereby Beckley became a wholly-owned subsidiary of the Company. Because of Butler's common ownership interests in the Company and Beckley, the merger was accounted for as if it were a pooling-of-interests.

Effective at the close of business on March 31, 1995, one of the Company's subsidiaries, FSC Educational, Inc., was merged into another subsidiary, Beckley.

Effective October 31, 1996, the Company issued 1,327,588 shares of Class A Common Stock to Butler Capital Corporation, an existing investor, (at a price of $9.50 per share), 1,777,676 shares to Fenway Partners, Inc., a new investor (at a price of $9.50 per share) and another 100,000 shares to an executive of the Company (at a price of $5.00 per share) as part of his executive employment agreement. Net proceeds from the stock issuance were used to pay down outstanding long-term debt.

Restructuring costs related to various organizational changes have been charged to expense as follows (in thousands):

	1998	1997	1996

Direct compensation	$ 924	$ 225	$2,181
Professional services	198	485	255
Facilities closing expense	--	--	1,636
Stock compensation expense	--	450	--
Other	76	221	271
	$1,198	$1,381	$4,343

In a prior year, the Company consolidated certain warehouse facilities. In 1996, the Company recorded a provision of $1,012,000 to adjust the carrying value of these assets based on

NOTE A -- ORGANIZATION AND NATURE OF THE BUSINESS (CONTINUED)
expected losses on the impending sales. During 1997, the assets were sold and the Company recognized proceeds approximately equal to the net carrying value as of March 31, 1996.

NOTE B -- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

BASIS OF PRESENTATION

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

The accompanying unaudited consolidated financial statements as of June 30, 1998 and for the three months ended June 30, 1998 and 1997 have been prepared in accordance with generally accepted accounting principles for interim financial information and Article 10 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. Operating results for the three-month period ended June 30, 1998 are not necessarily indicative of the results that may be expected for the year ending March 31, 1999.

CASH AND CASH EQUIVALENTS

The Company considers highly liquid investments with a maturity of three months or less to be cash equivalents, which are stated at cost.

INVENTORY

The Company values its inventory at the lower of cost or market on a first-in, first-out (FIFO) basis. Substantially all inventory is finished products purchased for resale.

PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment is stated at cost. Provisions for depreciation and amortization are computed by the straight-line method over the following estimated useful lives:

Building and improvements	15-30 years
Machinery, equipment and furniture	3-10 years

FAIR VALUE OF FINANCIAL INSTRUMENTS

At March 31, 1998 and 1997, the carrying value of the Company's financial

instruments, which include cash and cash equivalents, accounts receivable and accounts payable, approximate their fair value. The estimated fair value of the Company's long-term debt was $47,961,000 at March 31, 1998 and $47,665,000 at March 31, 1997 as compared with the carrying value of $45,669,000 and $44,158,000 included in the balance sheet at year-end 1998 and 1997, respectively.

NOTE B -- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

REVENUE RECOGNITION

Revenue from the sale of the Company's products is recognized upon shipment to the customer.

ADVERTISING EXPENSE

Advertising costs are expensed as incurred except for catalog costs, which are deferred and expensed as revenue from the respective catalog is realized. Advertising expenditures including catalog costs for the years ended March 31, 1998, 1997 and 1996 were $7,101,00, $4,824,000 and $4,927,000, respectively. Deferred catalog costs as of March 31, 1998 and 1997 were $5,286,000 and $4,486,000, respectively.

CONCENTRATION OF CREDIT RISK

Credit is extended based on an evaluation of the customer's financial condition and generally collateral is not required. Credit terms are consistent with the industry and losses from credit sales are provided for in the financial statements.

USE OF ESTIMATES

The preparation of financial statements in accordance with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

RECLASSIFICATION

Certain amounts have been reclassified in 1996 and 1997 to conform with the 1998 presentation.

INTANGIBLE ASSETS

Intangible assets consist of the following at March 31 (in thousands):

	COST		ACCUMULATED AMORTIZATION		NET	
	1998	1997	1998	1997	1998	1997
Customer lists	$14,300	$14,300	$5,150	$4,197	$ 9,150	$10,103
Goodwill	5,673	5,673	2,044	1,665	3,629	4,008
Debt issuance costs	1,781	1,781	1,294	1,093	487	688
	$21,754	$21,754	$8,488	$6,955	$13,266	$14,799

Intangible assets are amortized on a straight-line basis over periods ranging generally from 5 to 15 years.

The ongoing value and remaining useful lives of intangible assets are subject to periodic evaluation and the Company currently expects the carrying

amounts to be fully recoverable. When the events or circumstances indicate that intangible assets might be impaired, an

NOTE B -- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)
undiscounted cash flow methodology would be used to determine whether an impairment loss would be recognized.

As a result of a periodic evaluation during the year ended March 31, 1996, the Company wrote-off net intangible assets of $1,864,000 which consisted primarily of goodwill associated with a specific business unit. Other fully amortized intangible assets were also written off in 1997 and 1996 as a result of the merger with Beckley.

NOTE C -- FINANCING ARRANGEMENTS

Long-term debt consisted of the following at March 31 (in thousands):

	1998	1997
Revolving credit, due in fiscal year 2000	$ 5,192	$ --
Supplemental term loan with an interest rate of 8.25% payable quarterly, principal payments due annually in fiscal years 1998 through 2002	10,200	12,200
Subordinated debt with an interest rate of 11.25% payable quarterly, entire principal due in fiscal year 2000	6,458	6,458
Subordinated debt (net of original issue discount of $462 and $757 at March 31, 1998 and 1997, respectively) with an effective interest rate of 15.4% payable quarterly, entire principal due in fiscal year 2000	5,961	5,666
Subordinated debt with an effective interest rate of 9.0% payable quarterly, entire principal due in fiscal year 2003	7,804	7,804
Construction term loans with interest ranging from 8.25% to 8.31% payable quarterly, principal payments due quarterly in fiscal years 1997 through 2002	9,371	11,154
Capital lease obligations	311	320
Other notes payable	372	556
	45,669	44,158
Less current portion	3,084	4,036
	$42,585	$40,122

In September 1994, the Company and its subsidiaries entered into a combined Revolving Credit, Term Loan and Guaranty Agreement (the "Credit Agreement") with a bank. Maximum borrowings under the Revolving Credit facility and Term Loan are $30,000,000 ($10,000,000 during the period February 15 through April 1 each year and $33,000,000 from June 17, 1998 through October 31, 1998) and $15,000,000, respectively. The agreement also provides for the bank to issue Letters of Credit in amounts which will not exceed $10,000,000 in the aggregate. The face amount of the Letters of Credit issued shall reduce the amount of funds available under the Revolving Credit facility. As of March 31, 1998, Letters of Credit of $500,000 were outstanding. The Revolving Credit facility expires on June 30, 1999.

Advances under the Credit Agreement bear interest at a CD Rate, a Eurodollar Rate or a Reference Rate plus an applicable margin as specified in the Credit Agreement. A fee of 3/8% per annum is applied to the unused portion of the Revolving Credit facility.

NOTE C -- FINANCING ARRANGEMENTS (CONTINUED)

The Credit Agreement is secured by accounts receivable, inventory, certain property, plant and equipment and general intangible assets. As of March 31, 1996, funds under the Term Loan Agreement had been advanced for construction of a new facility. Upon completion of the new facility, in fiscal 1997, the funds advanced under the Term Loan Agreement were converted to a five year term loan under a fifteen year amortization schedule, with the final payment due on June 30, 2001. The Term Loan Agreement also provides for restrictions on payments of subordinated debt and accelerated principal payments on the Term Loan based upon a calculation of "excess cash flows" on an annual basis.

On October 29, 1996, an amendment was made to the Credit Agreement which included revisions to certain financial covenants and certain provisions for a restructuring of a portion of the Company's debt. The debt restructuring included a Supplemental Term Loan under the Credit Agreement of $12,200,000. Substantially all of the proceeds from the sale of stock (see Note A) and the Supplemental Term Loan were used to repay the entire amount outstanding under a former senior notes agreement, repay approximately $24,325,000 (net of $1,200,000 of unamortized original issue discount) of the amounts outstanding under the subordinated debt instruments, and to pay related accrued interest, prepayment penalties and refinancing costs. The Company recorded an extraordinary gain of $564,000 from the debt restructuring due to the write-off of deferred interest less prepayment penalties. No income tax expense was recorded for the extraordinary gain due to the use of available net operating loss carryforwards.

As a result of the Company's recapitalization in October 1996, subordinated debt instruments are now payable to Butler (60.76%) and Fenway (39.24%). The percentages are based on the investor's pro rata equity ownership. All subordinated debt is fully subordinated to the Credit Agreement. Amortization of the original issue discount is provided over the period the subordinated debt is outstanding using the effective interest rate method. Such amortization was approximately $295,000, $635,000 and $545,000 for the years ended March 31, 1998, 1997 and 1996, respectively. Interest is also provided using the effective interest rate method for the interest-free period on certain subordinated debt.

At the Bank's request, the Company must prepay all or any portion of the Supplemental Term Loan if the Company arranges for refinancing. Additionally, the Company may be required to prepay certain portions of the Credit Agreement in an amount equal to the Excess Cash Flow (as defined) on an annual basis. Any prepayments under the Excess Cash Flow provision would apply first to the Term Loan, then to the Supplemental Term Loan and would not affect scheduled maturities. No amounts are required to be prepaid under the Excess Cash Flow provision for fiscal year 1998. $1,000,000 was required to be paid for fiscal year 1997.

All long-term debt agreements contain certain restrictive covenants and provisions which, among other matters, place limitations on indebtedness, dividends and certain other payments, changes in control, certain investments and capital expenditures. Other covenants require the maintenance of minimum working capital and net worth levels and interest coverage and debt service coverage ratios.

As of March 31, 1998, the Company was in violation of a financial covenant under the Credit Agreement as the result of planned acceleration of inventory receipts to improve service levels. Effective June 17, 1998, an amendment was made to the Credit Agreement which included a waiver by the bank of the covenant violation that occurred and revisions to certain financial

NOTE C -- FINANCING ARRANGEMENTS (CONTINUED)
covenants through March 31, 1999, including the leverage, interest coverage, debt service coverage, net worth and current ratios.

Aggregate principal payments due on long-term debt are as follows (in thousands):

Years ending March 31:	
1999	$ 3,084
2000	20,669
2001	3,880
2002	10,231
2003	7,805
	$45,669

Scheduled principal payments under the subordinated debt agreements were deferred in fiscal year 1996 according to the Credit Agreement. Payments were made concurrent with the debt and equity restructuring in October 1996. Subordinated debt principal payments are permitted out of excess cash flow, provided certain covenant calculations are met.

Other long-term liabilities represent interest at March 31, 1998 and 1997.

NOTE D -- STOCKHOLDERS' EQUITY

The Company has three classes of common stock authorized. Class A and B stock have equal voting rights of one vote per share outstanding. Each holder of Class C stock is entitled to a number of votes equal to a conversion factor for each Class C share outstanding. Class C shares may be converted into the number of Class A shares as is equal to the conversion factor in effect at the time of such conversion.

NOTE E -- STOCK OPTIONS AND WARRANTS

The Company maintains two stock option plans. The 1987 Stock Plan has three remaining participants who hold fully vested options to purchase shares of the Company's Class A or Class C Common Stock at an exercise price of $1.73 per share. There are no remaining grants under the 1987 Stock Plan.

The 1997 Performance Accelerated Stock Option Plan (the 1997 Plan) succeeds a previous plan which originated in 1993. All options issued under the 1993 Plan have been cancelled. The 1997 Plan granted 721,792 options in 1997 to employees to purchase shares of the Company's Class A Common Stock. The options vest over time, with vesting accelerated if certain financial objectives are met. All options under the 1997 Plan are exercisable at $9.50 per share, which was the market price at the time of the grant. Generally, options under the 1997 Plan expire ten years from the date of grant.

The Company has elected to follow Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees" (APBO No. 25), and related interpretations in accounting for its employee stock options, because as discussed below, the alternative fair value accounting provided for under Statement of Financial Accounting Standards No. 123, "Accounting for Stock-Based Compensation" (SFAS No. 123) requires the use of highly subjective assumptions in option valuation models. Under APBO No. 25, because the exercise

NOTE E -- STOCK OPTIONS AND WARRANTS (CONTINUED)
price of the Company's employee stock options is not less than the fair market price of the shares at the date of the grant and the number of options is known,

no compensation expense is recognized in the financial statements.

Pro forma information regarding net income determined as if the Company had accounted for the 1997 Performance Accelerated Stock Option Plan under the fair value method of SFAS No. 123 is required to be disclosed for the year ended March 31, 1997 as options were granted in that year. The fair value for these options was estimated at the date of the grant using the Minimum Value Model which is typically used for non-public companies. The following input assumptions were used in determining the fair value.

	1997
Risk-free interest rate	5.0%
Expected life of option	10 years
Expected dividend yield	0.0%

Because the Company's employee stock options have several unique characteristics, and because changes in the subjective input assumptions can materially affect the fair value estimate, it is management's opinion that the existing model does not necessarily provide a reliable single measure of the fair value of its employees stock options.

The amounts below represent the pro forma information calculated through the use of the Minimum Value Model.

	1997
Reported net income	$ 252,000
Pro forma net loss	(115,000)

The weighted average fair value of the Company's stock options used to compute the pro forma net loss disclosure is $3.38.

Due to the required phase-in provisions, the effects of applying SFAS No. 123 to arrive at the above pro forma amounts are not representative of the expected effects on pro forma net income in future years.

A summary of the Company's stock option activity and related information for the years ended March 31 is shown in the following table.

	1998		1997		1996	
	OPTIONED SHARES	WEIGHTED AVERAGE EXERCISE PRICE	OPTIONED SHARES	WEIGHTED AVERAGE EXERCISE PRICE	OPTIONED SHARES	WEIGHTED AVERAGE EXERCISE PRICE
Outstanding beginning of year	743,542	$9.43	130,496	$17.91	190,196	$18.58
Granted	--	--	721,792	9.50	30,800	20.04
Exercised	--	--	--	--	--	--
Cancelled	310,958	9.50	108,746	20.04	90,500	20.04
Outstanding end of year	432,584	$9.11	743,542	$ 9.43	130,496	$17.91
Exercisable end of year	223,787	$8.75	265,178	$ 8.86	55,623	$12.88

NOTE E -- STOCK OPTIONS AND WARRANTS (CONTINUED)

At March 31, 1998 and 1997, the weighted average remaining contractual life of the Company's stock options was 7.62 years and 9.74 years, respectively.

As of March 31, 1998 and 1997, there were 36,261 shares available for future grants.

In addition, effective October 29, 1996, the Company amended and restated its warrant agreement with BCC Industrial Services (BCC), an affiliate of Butler. The new agreement entitles BCC to purchase, at any time, 22,819 duly authorized, validly issued, fully paid and nonassessable shares of the Company's Class A Common Stock at a purchase price of $9.50 per share.

NOTE F -- INCOME TAXES

The Company uses the liability method in measuring the provision for income taxes and recognizing deferred tax assets and liabilities in the balance sheet. The liability method requires that deferred income taxes reflect the tax consequences of currently enacted rates for differences between the tax and financial reporting bases of assets and liabilities.

There was no income tax expense or benefit recorded in 1998, 1997 or 1996. The Company has available net operating loss carryforwards of approximately $24 million. These carryforwards, if not utilized, expire in varying amounts from 2009 to 2013.

The significant components of deferred tax assets and liabilities were as follows (in thousands):

	MARCH 31, 1998		MARCH 31, 1997	
	DEFERRED TAX ASSETS	DEFERRED TAX LIABILITIES	DEFERRED TAX ASSETS	DEFERRED TAX LIABILITIES
Net operating loss carryforwards	$ 8,276	$ --	$ 6,846	$ --
Inventory	635	--	705	--
Catalog costs	--	1,719	--	1,363
Accrued liabilities and other	3,763	2,361	2,055	16
	12,674	4,080	9,606	1,379
Valuation allowance	(8,594)	--	(8,227)	--
	$ 4,080	$4,080	$ 1,379	$1,379

The provision for income taxes differs from the amounts computed by applying the federal statutory rate as follows:

	MARCH 31,		
	1998	1997	1996
Income tax expense (credit) at federal statutory rate	(34.0)%	(34.0)%	(34.0)%
Non-deductible intangible amortization	9.3	49.3	2.5
Other, net	2.1	(43.8)	0.6
Valuation allowance	22.6	28.5	30.9
	0.0	0.0	0.0

NOTE G -- LEASES

The Company leases equipment under agreements accounted for as capital leases. The cost of equipment recorded under capital leases was $457,035 and $377,000 as of March 31, 1998 and 1997, respectively.

The Company has operating leases for certain machinery and computer equipment. Rent expense for all operating leases amounted to approximately $412,000 in 1998, $329,000 in 1997 and $476,000 in 1996.

At March 31, 1998, future minimum lease payments under non-cancellable operating and capital leases are as follows:

	CAPITAL LEASES	OPERATING LEASES
Years ending March 31:		
1999	$127	$ 550
2000	127	499
2001	108	189
2002	9	17
2003	--	--
Total minimum lease payments	$371	$1,255
Less amount representing interest	60	
Present value of total obligation under capital leases	311	
Less current portion	98	
Long-term obligation under capital leases	$213	

NOTE H -- BENEFIT PLANS

The Company sponsors defined contribution employee savings plans covering substantially all of its salaried and hourly employees. During fiscal 1997, the Company merged these plans into one plan covering all eligible employees. Under the plan, the Company contributes a matching amount based upon the employees' deferred salary contribution. Company contributions were approximately $403,000, $414,000 and $405,000 for the years ended March 31, 1998, 1997 and 1996, respectively.

NOTE I -- CONTINGENCIES

The Company is subject to legal proceedings and claims arising in the ordinary course of its business. Management evaluates each claim and provides for any potential loss when the claim is probable and estimable. In the opinion of management, the ultimate liability with respect to these actions will not materially affect the financial position, results of operations and cash flows of the Company.

NOTE J -- YEAR 2000 (UNAUDITED)

In fiscal 1998, the Company completed an upgrade of its J.D. Edwards (JDE) software which, through testing and implementation, has addressed the Year 2000 date conversion issue. Additionally, the Company uses software from large national vendors with a broad base of active

NOTE J -- YEAR 2000 (UNAUDITED)(CONTINUED)
users in all other software applications, therefore, the Year 2000 date conversion was accomplished through the JDE and other software upgrades at no significant cost to the Company. However, there can be no assurance that the systems of other companies on which the Company's systems rely also will be timely converted or that any such failure to convert by another company would not have an adverse effect on the Company's systems.

NOTE K -- SUBSEQUENT EVENT (UNAUDITED)

Effective August 14, 1998, the Company and its stockholders entered into an Agreement and Plan of Merger with School Specialty, Inc. to sell all of its outstanding common stock for total consideration of approximately $138 million.

REPORT OF INDEPENDENT ACCOUNTANTS

To the Stockholders and
Board of Directors of
Hammond & Stephens Company

In our opinion, the accompanying balance sheet and the related statements of income, of stockholders' equity and of cash flows present fairly, in all material respects, the financial position of Hammond & Stephens Company at October 31, 1997, and the results of its operations and its cash flows for the year in conformity with generally accepted accounting principles. These financial statements are the responsibility of the Company's management; our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit of these statements in accordance with generally accepted auditing standards which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for the opinion expressed above.

PRICEWATERHOUSECOOPERS LLP

Minneapolis, Minnesota
September 3, 1998

HAMMOND & STEPHENS COMPANY

BALANCE SHEET

	OCTOBER 31, 1997	APRIL 30, 1998 (UNAUDITED)
ASSETS		
Current assets:		
Cash and cash equivalents	$2,930,710	$ 226,749
Accounts receivable	732,334	720,778
Inventories	2,025,849	3,467,382
Employees' advances	12,319	1,049
Prepaid expenses	36,255	47,555
Income tax deposit	151,032	151,032
Total current assets	5,888,499	4,614,545
Property and equipment:		
Fixtures and equipment	2,071,181	2,077,916

Transportation equipment	28,364	28,364
Leasehold improvements	62,337	62,337
	2,161,882	2,168,617
Less: Accumulated depreciation	1,470,219	1,557,838
Total property and equipment	691,663	610,779
Investments and other assets:		
Cash value of life insurance	423,882	456,382
Total assets	$7,004,044	$5,681,706
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 238,247	$ 295,939
Accrued sales commissions	578,880	30,689
Other accrued expenses	198,657	112,309
Total current liabilities	1,015,784	438,937
Stockholders' equity:		
Common stock; authorized 1,500 shares, $100 par value; issued and outstanding 1,500 shares	150,000	150,000
Retained earnings	6,966,073	6,220,582
	7,116,073	6,370,582
Less: Treasury stock, 1,050 shares at cost	1,127,813	1,127,813
Total stockholders' equity	5,988,260	5,242,769
Total liabilities and stockholders' equity	$7,004,044	$5,681,706

The accompanying notes are an integral part of the financial statements.

HAMMOND & STEPHENS COMPANY

STATEMENT OF INCOME

	FOR THE YEAR ENDED OCTOBER 31, 1997	FOR THE SIX MONTHS ENDED APRIL 30, 1997	FOR THE SIX MONTHS ENDED APRIL 30, 1998
		(UNAUDITED)	
Net sales	$9,082,852	$1,800,254	$1,744,600
Cost of goods sold	4,372,852	867,461	842,341
Gross profit	4,710,000	932,793	902,259
Selling, general and administrative expenses	2,466,670	846,996	925,104
Operating income (loss)	2,243,330	85,797	(22,845)
Other income:			
Interest income	70,838	45,823	61,091
Other	56,456	28,438	26,263
Net income	$2,370,624	$ 160,058	$ 64,509

The accompanying notes are an integral part of the financial statements.

HAMMOND & STEPHENS COMPANY

STATEMENT OF STOCKHOLDERS' EQUITY

	CAPITAL STOCK	RETAINED EARNINGS	COMMON STOCK HELD IN TREASURY	TOTAL STOCKHOLDERS' EQUITY
Balance at October 31, 1996	$150,000	$ 6,575,449	$(1,127,183)	$ 5,598,266
Net income		2,370,624		2,370,624
Cash dividends paid on common stock, $4,400 per share		(1,980,000)		(1,980,000)
Balance at October 31, 1997	150,000	6,966,073	(1,127,183)	5,988,890
Net income (unaudited)		64,509		64,509
Cash dividends paid on common stock, $1,800 per share (unaudited)		(810,000)		(810,000)
Balance at April 30, 1998 (unaudited)	$150,000	$ 6,220,582	$(1,127,183)	$ 5,243,399

The accompanying notes are an integral part of the financial statements.

HAMMOND & STEPHENS COMPANY

STATEMENT OF CASH FLOWS

	FOR THE YEAR ENDED OCTOBER 31, 1997	FOR THE SIX MONTHS ENDED APRIL 30, 1997	FOR THE SIX MONTHS ENDED APRIL 30, 1998
		(UNAUDITED)	
Cash flows from operating activities:			
Net income	$ 2,370,624	$ 160,058	$ 64,509
Adjustments to reconcile net income to cash provided by (used in) operating activities:			
Depreciation	192,676	89,384	87,619
Cash surrender value of officers' life insurance	(24,186)	2,424	524
Gain on sale of assets	(4,000)		
Changes in assets and liabilities:			
Accounts receivable	(83,559)	(115,124)	22,827
Inventories	(39,299)	(1,561,561)	(1,441,533)
Employees' advances	(8,605)		
Prepaid expenses	(2,701)	(7,146)	(11,300)
Income tax deposit	(16,570)		
Accounts payable	(9,930)	(47,279)	60,058
Accrued expenses	(19,386)	(647,068)	(636,905)
Net cash provided by (used in) operating activities	2,355,064	(2,126,312)	(1,854,201)
Cash flows from investing activities:			
Purchases of property and equipment	(153,496)	(15,507)	(6,736)
Purchase of officers' life insurance	(40,731)	(33,024)	(33,024)
Proceeds from sale of assets	4,000		
Net cash used in investing activities	(190,227)	(48,531)	(39,760)
Cash flows from financing activities:			
Dividends paid	(1,980,000)		(810,000)
Net cash used in financing activities	1,980,000		810,000
Net increase (decrease) in cash and cash equivalents	184,837	(2,174,843)	(2,703,961)
Cash and cash equivalents at beginning of period	2,745,873	2,745,873	2,930,710
Cash and cash equivalents at end of period	$ 2,930,710	$ 571,030	$ 226,749

The accompanying notes are an integral part of the financial statements.

NOTES TO FINANCIAL STATEMENTS

NOTE 1 -- NATURE OF BUSINESS AND SIGNIFICANT ACCOUNTING POLICIES

NATURE OF BUSINESS

The Company is primarily engaged in the printing and sales of educational materials to schools nationwide.

REVENUE RECOGNITION

The Company recognizes revenue from product sales at the time of billing, which is completed within one day of shipment. All goods shipped on the last day of the year are billed on the last day of the year and have been properly included in current year revenues.

CASH AND CASH EQUIVALENTS

For purposes of the statement of cash flows, the Company considers all highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents.

ACCOUNTS RECEIVABLE

Doubtful accounts are written off as deemed uncollectible. It is management's opinion that all accounts represented on the balance sheet at October 31, 1997 are collectible.

INVENTORY VALUATION

Inventory is valued at the lower of cost, using the first-in, first-out method, or market.

PROPERTY AND EQUIPMENT

Property and equipment are recorded at cost. Expenditures for maintenance and repairs are charged to expense as incurred. Major expenditures for improvements are capitalized. The Company computes depreciation on its property and equipment using the straight-line method.

Rates used for depreciation are based on the following estimated useful lives: fixtures and equipment -- 3 to 20 years; transportation equipment -- 5 years; and leasehold improvements -- 10 to 31 years.

Upon sale or retirement of property and equipment, the related costs and accumulated depreciation are removed from the accounts and any gain or loss is included in the determination of income.

ADVERTISING EXPENSE

Advertising costs are expensed as incurred except for catalog costs, which are deferred and expensed as distributed. Advertising expense including catalog costs for the year ended October 31, 1997 was $219,486. Deferred catalog costs as of October 31, 1997 were $12,674.

INCOME TAXES

The Company has elected to be taxed under the provisions of Subchapter S of the Internal Revenue Code by unanimous consent of its stockholders. Under those provisions, the Company does not pay Federal corporate income taxes on its taxable income. Instead, the stockholders are liable for individual income taxes on their respective shares of the Company's taxable income.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE 1 -- NATURE OF BUSINESS AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

USE OF ESTIMATES

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

UNAUDITED INTERIM FINANCIAL DATA

In the opinion of management, the Company has made all adjustments, consisting only of normal recurring accruals, necessary for a fair presentation of the financial condition of the Company as of April 30, 1998 and the results of operations and of cash flows for the six months ended April 30, 1997 and April 30, 1998, as presented in the accompanying unaudited financial data.

NOTE 2 -- CONCENTRATION OF CREDIT RISK

The Company maintains cash balances at one financial institution located in Fremont, Nebraska. The accounts are secured by the Federal Deposit Insurance Corporation up to $100,000. Uninsured balances aggregate $2,936,020 at October 31, 1997.

NOTE 3 -- INVENTORIES

Inventories consist of the following components:

	OCTOBER 31, 1997	APRIL 30, 1998
Raw material	$ 311,483	$ 693,476
Work in process	669,697	1,144,236
Finished goods	1,044,669	1,629,670
	$2,025,849	$3,467,382

NOTE 4 -- PROPERTY AND EQUIPMENT

For the year ending October 31, 1997, depreciation expense was $192,676.

NOTE 5 -- BUILDING LEASE

The Company's operations are conducted in facilities leased form the Company's president. The lease was for a two-year term, through December 31, 1997 and provided for monthly rental payments of $9,900 through October 31, 1997 and $14,700 for November and December 1997, with the Company paying all maintenance and executory costs. The Company has determined the building to be an operating lease and it is recorded as such in the financial statements. The future minimum rental payments excluding maintenance and executory costs required under this lease are as follows:

Year ended October 31, 1998	$29,400

Building lease expense for the year ending October 31, 1997 was $118,800.

NOTE 5 -- BUILDING LEASE (CONTINUED)

The building lease was renewed for a two year term on January 1, 1998 for a fixed monthly rental payment of $14,700.

NOTE 6 -- EMPLOYEE BENEFIT PLAN

The Company maintains a profit sharing plan which includes provisions from the Internal Revenue Code, Section 401-(K). The plan covers substantially all the employees. Profit sharing expense for the year ended October 31, 1997 was $42,290.

NOTE 7 -- SUBSEQUENT EVENTS

On June 30, 1998, the Company was acquired by School Specialty, Inc. a supplier of non-textbook education products to schools and educators. Total consideration for the acquisition was approximately $16.5 million, payable in a cash transaction structured as an asset purchase for certain assets and liabilities of the Company. The acquisition has been accounted for under the purchase method of accounting.

UNDERWRITING

School Specialty and the underwriters for the offering (the "Underwriters") named below have entered into an underwriting agreement with respect to the shares of Common Stock being offered. Subject to certain conditions, each Underwriter has severally agreed to purchase the number of shares indicated in the following table. Goldman, Sachs & Co., Salomon Smith Barney Inc. and U.S. Bancorp Piper Jaffray Inc. are the representatives of the Underwriters (the "Representatives").

Underwriters	Number of Shares
Goldman, Sachs & Co.	704,000
Salomon Smith Barney Inc.	704,000
U.S. Bancorp Piper Jaffray Inc.	704,000
EVEREN Securities, Inc.	72,000
Edward D. Jones & Co., L.P.	72,000
Robert W. Baird & Co. Incorporated	36,000
Legg Mason Wood Walker, Incorporated	36,000
Miller, Johnson & Kuehn, Inc.	36,000
B.C. Ziegler and Company	36,000
Total	2,400,000

If the Underwriters sell more than the total number set forth in the table above, the Underwriters have an option to buy up to an additional 360,000 shares from us to cover such sales. They may exercise that option for 30 days. If any shares are purchased pursuant to this option, the Underwriters will severally purchase shares in approximately the same proportion as set forth in the table above.

The following table shows the per share and total underwriting discounts and commissions to be paid to the Underwriters by us. Such amounts are shown assuming both no exercise and full exercise of the Underwriters' option to purchase additional shares.

	Paid by School Specialty	
	No Exercise	Full Exercise
Per Share	$ 1.00	$ 1.00
Total	$2,400,000	$2,760,000

Shares sold by the Underwriters to the public will initially be offered at the initial price to public set forth on the cover of this Prospectus. Any shares sold by the Underwriters to securities dealers may be sold at a discount of up to $0.60 per share from the initial price to public. Any such securities dealers may resell any shares purchased from the Underwriters to certain other brokers or dealers at a discount of up to $0.10 per share from the initial price to public. If all the shares are not sold at the initial price to public, the Representatives may change the offering price and the other selling terms.

School Specialty has agreed, along with certain of its directors and executive officers, not to dispose of or hedge any of their Common Stock or securities convertible into or exchangeable for shares of Common Stock during the period from the date of this Prospectus continuing through the date 90 days after the date of this Prospectus, except with the prior written consent of the Representatives. This agreement does not apply to any existing employee benefit plans, including the 1998 Stock Incentive Plan, or shares of Common Stock used as consideration for acquisitions (up to an aggregate of 1.5 million shares if holders of 1.4 million shares deliver a lock-up letter to the Representatives).

In connection with the offering, the Underwriters may purchase and sell shares of Common Stock in the open market. These

transactions may include short sales, stabilizing transactions and purchases to cover positions created by short sales. Short sales involve the sale by the Underwriters of a greater number of shares than they are required to purchase in the offering. Stabilizing transactions consist of certain bids or purchases made for the purpose of preventing or retarding a decline in the market price of the Common Stock while the offering is in progress.

The Underwriters also may impose a penalty bid. This occurs when a particular Underwriter repays to the Underwriters a portion of the underwriting discount received by it because the Representatives have repurchased shares sold by or for the account of such Underwriter in stabilizing or short covering transactions.

These activities by the Underwriters may stabilize, maintain or otherwise affect the market price of the Common Stock. As a result, the price of the Common Stock may be higher than the price that otherwise might exist in the open market. If these activities are commenced, they may be discontinued by the Underwriters at any time. These transactions may be effected on the Nasdaq National Market, in the over-the-counter market or otherwise.

School Specialty has agreed to indemnify the several Underwriters against certain liabilities, including liabilities under the Securities Act of 1933, as amended (the "Securities Act").

School Specialty estimates that its share of the total expenses of the Common Stock offering, excluding underwriting discounts and commissions, will be approximately $350,000.

[PICTURES OF HOME PAGE FOR COMPANY'S VARIOUS WEBSITES]

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No dealer, salesperson or other person is authorized to give you any information or to represent anything not contained in this Prospectus. You must not rely on any unauthorized information or representations. This Prospectus is an offer to sell or to buy only the shares offered hereby, but only under circumstances and in jurisdictions where it is lawful to do so. The information contained in this Prospectus is current only as of its date.

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2,400,000 Shares

SCHOOL SPECIALTY, INC.

Common Stock

LOGO

GOLDMAN, SACHS & CO.

SALOMON SMITH BARNEY

U.S. BANCORP PIPER JAFFRAY

Representatives of the Underwriters