

## To Our Shareholders:

Fiscal 2001 was an important year for School Specialty in terms of accomplishments. The year began in an environment where capital markets were very focused on the offensive and defensive strategy positions of companies' Internet initiatives.

Today, with the advantage of hindsight, we know the competitive threat is no longer an issue. Consequently, we have rationalized our initial spending plan and have focused on an offensive position of building Internet infrastructure and extending services via the Internet to our customers. This revised focus has resulted in School Specialty, today, having the two strongest Internet purchasing sites in the supplemental educational supply industry. They are *ClassroomDirect.com*, our B2T (business to teacher) site, and *JuneBox.com*, our B2B (business to business) purchasing portal that offers over 140,000 different products and extends procurement services to our vast school and school district customer base. These Internet investments will return value to the company through increased penetration into current accounts and reduced operating expenses.

On the acquisition front, we were able to accomplish something that we thought was not possible. We acquired the K-12 wholesale division of our only national competitor, the very prominent and oldest school supply company in the United States, J.L. Hammett. This acquisition advantageously positioned us with additional warehouse and delivery capacity, customer care call centers, and increased penetration into key regions throughout the country. Because this acquisition took place immediately before our light volume quarters, it was dilutive to our fiscal year 2001 income. It will, however, become very accretive to fiscal 2002, as we were able to use that slow season to successfully complete the integration of Hammett into School Specialty's operations.

We also acquired Teacher's Video Company of Tempe, Arizona in fiscal 2001. This acquisition enabled us to extend our product offer to include 10,000 titles of educational videos. These products have been cross-merchandised with our other catalogs.

Integration remained a core competency of School Specialty associates throughout the year and resulted in further consolidation. We moved our Sportime and Sax distribution centers into our Mansfield and Appleton distribution centers. We also built a new state-of-the-art distribution center in Appleton to address the need for increased capacity, which resulted from these consolidations, and a new corporate office contiguous to the new distribution center.

During fiscal 2001, School Specialty reaffirmed its focus as a mission driven company and provider of supplemental educational materials to educators throughout the United States. As a result, we divested ourselves of our only foreign subsidiary, Gresswell, Ltd. of the United Kingdom, as well as our only software development company, SmartStuff Software of Portland, Oregon. With the sale of SmartStuff, we developed a business

partnership with an on-line curriculum company, Riverdeep Group plc. This partnership will allow School Specialty the opportunity to share in Riverdeep's revenues and gross profits in exchange for the ability to tap into School Specialty's sales force and catalogs.

In fiscal 2001, we reported record revenues of \$692.7 million capping a five-year compounded annual growth rate of 38%. Operating income at \$43.1 million in fiscal 2001 represented a 39% compounded annual growth rate, before restructuring and non-recurring costs, over the same five-year period. Our focus on generating free cash and managing working capital resulted in a 24 percent improvement in cash flow from operations over fiscal 2000.



Daniel P. Spalding

David J. Vander Zanden

### Our Mission is Service

We serve the educational community by providing quality products and services; reliably, accurately and competitively. We commit to the teamwork, professionalism and mutual trust and respect it takes to achieve absolute customer, associate and shareholder satisfaction.

As we head into fiscal 2002, prospective opportunities are significant. Our country has identified at virtually every level — federal, state and local — that education today is more important to the long-term prosperity of our nation than any other social service we provide. This is evidenced by: (1) over 71% of the voters in the United States are in favor of increased spending on education, (2) Congress and the President have endorsed increases in spending and accountability for more education systems, and (3) an ever increasing student enrollment.

School Specialty is positioned to take advantage of the anticipated growth in the education market. With our platform of distribution facilities and brands, our access points to education through 380 sales people, over 38 million catalogs, and our *JuneBox.com* and *ClassroomDirect.com* Internet initiatives, we are not only positioned as a company, but poised, to pursue our stated goals of building School Specialty into a \$1 billion revenue enterprise with a 10% operating profit.

Our commitment to achieving these goals is shared by every individual within our organization. Our variable compensation programs address financial goals as well as customer service and associate support objectives. Our accomplishments of the past year would not have been possible without the hard work, creative thinking and dedication of our associates. Our opportunities for the future are founded on this same creativity and dedication.

We look forward to working together in the coming year and to exceeding all of our stakeholders' expectations.

Sincerely,

Daniel P. Spalding  
Chairman & CEO  
School Specialty, Inc.

David J. Vander Zanden  
President & COO  
School Specialty, Inc.

## Directors

### **Daniel P. Spalding**

Chairman, Chief Executive Officer  
School Specialty, Inc.

### **David J. Vander Zanden**

President, Chief Operating Officer  
School Specialty, Inc.

### **Jonathan J. Ledecy**

Former Chairman, Chief Executive Officer  
Building O-N-E Services Corporation

### **Leo C. McKenna**

Financial Consultant

### **Rochelle Lamm**

Chairman, Chief Executive Officer  
Precision Marketing Partners, LLC

### **Jerome M. Pool**

Former President  
Jantzen, Inc.

## Officers

### **Daniel P. Spalding**

Chairman,  
Chief Executive Officer

### **David J. Vander Zanden**

President,  
Chief Operating Officer

### **Mary M. Kabacinski**

Executive Vice President,  
Chief Financial Officer

### **A. Brent Pulsipher**

Executive Vice President,  
Corporate Logistics & Technology

### **Michael J. Killoren**

Executive Vice President,  
Chief Information Officer for  
JuneBox.com

### **Donald J. Noskowiak**

Vice President Finance/  
Business Development

### **Richard H. Nagel**

Executive Vice President for  
Sax Arts & Crafts

### **John Jeffery**

Executive Vice President for  
Global Video and ClassroomDirect.com

### **Ronald E. Suchodolski**

Executive Vice President for  
Childcraft

### **Garett H.D. Reid**

Executive Vice President for  
Frey Scientific

### **Peter S. Savitz**

Executive Vice President for  
Sportime

### **Noel R. Eggebraaten**

Executive Vice President for  
Hammond & Stephens

### **Joseph F. Franzoi IV**

Secretary and Corporate Counsel

## Investor Information

### **Corporate Headquarters**

School Specialty, Inc.  
W6316 Design Drive  
Greenville, Wisconsin 54942  
Phone: 920-734-5712  
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### **Stock Listing**

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

### **Shareholder Information**

For information about School Specialty, including copies of annual reports, forms 10-K and 10-Q and other available information, please contact:

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Executive Vice President and CFO  
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mkabacinski@schoolspecialty.com

### **Dividend Policy**

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

### **Annual Meeting**

All shareholders are welcome to attend School Specialty's annual meeting. It will be held at 10:00 a.m. Central Standard Time on August 28, 2001, at the Radisson Paper Valley Hotel in Appleton, Wisconsin.

### **Websites**

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

### **Transfer Agent and Registrar**

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### **Independent Auditors**

Arthur Andersen, LLP  
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### **Legal Counsel**

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