UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

FORM 10-Q

[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE QUARTERLY PERIOD ENDED JANUARY 22, 2000.

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

Commission File Number: 000-24385

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

Delaware	39-0971239
(State of Other Jurisdiction of Incorporation)	(IRS Employer Identification No.)

426 West College Avenue
Appleton, Wisconsin
(Address of Principal Executive Offices)

54911
(Zip Code)

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

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes [X] No [ ]

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

Class	Outstanding at February 29, 2000
Common Stock, $0.001 par value	17,437,758

SCHOOL SPECIALTY, INC.

INDEX TO FORM 10-Q

FOR THE QUARTERLY PERIOD ENDED JANUARY 22, 2000

PART I - FINANCIAL INFORMATION

PART I - FINANCIAL INFORMATION

Item 1. Financial Statements

SCHOOL SPECIALTY, INC.
CONSOLIDATED BALANCE SHEETS
(Dollars in thousands, except share and per share data)

	January 22, 2000 (unaudited)	April 24, 1999
ASSETS		
Current assets:		
Cash and cash equivalents	$ 6,945	$ 9,779
Accounts receivable, less allowance for doubtful accounts of $1,984 and $2,234, respectively	96,870	74,781
Inventories	58,041	78,783
Deferred taxes	8,396	8,371
Prepaid expenses and other current assets	19,892	18,673
Total current assets	190,144	190,387
Property and equipment, net	47,960	42,305
Intangible assets, net	198,882	201,206
Deferred taxes and other	4,812	3,810
Total assets	$ 441,798	$ 437,708
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Current portion - long term debt	$ 15,396	$ 11,594
Accounts payable	30,302	37,050
Accrued compensation	10,635	8,410
Accrued income taxes	9,847	4,193
Accrued restructuring	1,015	2,752
Other accrued liabilities	9,323	9,194
Total current liabilities	76,518	73,193
Long term debt	138,549	161,691
Other	132	137

Total liabilities	215,199	235,021
Stockholders' equity:		
Preferred stock, $0.001 par value per share, 1,000,000 shares authorized; none outstanding	-	-
Common stock, $0.001 par value per share, 150,000,000 shares authorized and 17,437,758 and 17,229,197 shares issued and outstanding, respectively	17	17
Capital paid-in excess of par value	195,597	192,196
Accumulated other comprehensive loss	(10)	(5)
Retained earnings	30,995	10,479
Total stockholders' equity	226,599	202,687
Total liabilities and stockholders' equity	$ 441,798	$ 437,708

See accompanying notes to consolidated financial statements.

SCHOOL SPECIALTY, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited)
(In thousands, except per share amounts)

	Three Months Ended		Nine Months Ended	
	January 22, 2000	January 23, 1999	January 22, 2000	January 23, 1999
Revenues	$97,244	$85,359	$523,131	$424,332
Cost of revenues	63,815	57,266	333,910	281,436
Gross profit	33,429	28,093	189,221	142,896
Selling, general and administrative expenses	35,674	30,476	140,201	108,005
Restructuring costs	-	-	-	5,274
Operating income (loss)	(2,245)	(2,383)	49,020	29,617
Other income (expense):				
Interest expense	(3,216)	(3,879)	(10,081)	(8,942)
Interest income	13	37	84	114
Other	(382)	-	(391)	-
Income (loss) before provision for (benefit from) income taxes	(5,830)	(6,225)	38,632	20,789
Provision for (benefit from) income taxes	(2,798)	(2,927)	18,116	10,094
Net income (loss)	$(3,032)	$(3,298)	$ 20,516	$ 10,695
Weighted average shares outstanding:				
Basic	17,434	14,579	17,417	14,625
Diluted	17,434	14,579	17,425	14,665
Net income per share:				
Basic	$ (0.17)	$ (0.23)	$ 1.18	$ 0.73
Diluted	$ (0.17)	$ (0.23)	$ 1.18	$ 0.73

See accompanying notes to consolidated financial statements.

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

	For the Nine Months Ended January 22, 2000	For the Nine Months Ended January 23, 1999
Cash flows from operating activities:		
Net income	$ 20,516	$ 10,695
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization expense	9,576	6,607
Restructuring costs	-	5,274
Amortization of loan fees	430	420
Loss on disposal of fixed assets	415	-
Change in current assets and liabilities (net of assets acquired and liabilities assumed in business combinations accounted for under the purchase method):		
Accounts receivable	(19,998)	(1,971)
Inventory	22,176	27,208
Prepaid expenses and other current assets	(1,942)	1,722
Accounts payable	(8,605)	(31,924)
Accrued liabilities	6,523	11,069
Net cash provided by operating activities	29,091	29,100
Cash flows from investing activities:		
Cash paid in acquisitions, net of cash received	(1,291)	(95,030)
Additions to property and equipment	(10,698)	(3,978)
Other	(1,936)	171
Net cash used in investing activities	(13,925)	(98,837)
Cash flows from financing activities:		
Proceeds from issuance of common stock	2,225	32,735
Proceeds from bank borrowings	142,000	302,700
Repayment of bank debt and capital leases	(162,225)	(187,857)
Repayment of amounts due to U.S. Office Products	-	(82,976)
Capital contribution by U.S. Office Products	-	8,095
Capitalized loan fees	-	(2,960)
Net cash provided by (used in) financing activities	(18,000)	69,737
Net decrease in cash and cash equivalents	(2,834)	-
Cash and cash equivalents, beginning of period	9,779	-
Cash and cash equivalents, end of period	$ 6,945	$ -

See accompanying notes to consolidated financial statements.

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

The Company issued common stock and cash in connection with certain business combinations accounted for under the purchase method of accounting in the nine months ended January 22, 2000, 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:

For the Nine
Months Ended

	January 22, 2000	January 23, 1999
Accounts receivable	$ 2,091	$ 44,153
Inventories	1,434	24,701
Prepaid expenses and other current assets	66	3,251
Property and equipment	179	17,312
Intangible assets	2,186	85,312
Other assets	13	7,223
Accounts payable	(1,857)	(23,621)
Accrued liabilities	(760)	(6,303)
Long-term debt	(885)	(56,998)
Net assets acquired	$ 2,467	$ 95,030
Acquisitions were funded as follows:		
Common stock	$ 1,176	$ -
Cash paid, net of cash acquired	1,291	95,030
Total	$ 2,467	$ 95,030

See accompanying notes to consolidated financial statements.

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

NOTE 1-BASIS OF PRESENTATION

The accompanying unaudited consolidated financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information and with the instructions to Form 10-Q and Rule 10-01 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. The balance sheet at April 24, 1999, has been derived from the Company's audited financial statements for the fiscal year ended April 24, 1999. For further information, refer to the consolidated financial statements and notes thereto included in the Company's Annual Report on Form 10-K for the year ended April 24, 1999.

NOTE 2-STOCKHOLDERS' EQUITY

Changes in stockholders' equity during the nine months ended January 22, 2000, were as follows:

Stockholders' equity balance at April 24, 1999	$202,687
Issuance of common stock	3,401
Net income	20,516
Cumulative translation adjustment	(5)
Stockholders' equity balance at January 22, 2000	$226,599

On May 17, 1999, the underwriters of the Company's secondary offering, which occurred on April 16, 1999, exercised their over allotment option for 151 shares of Common Stock for net proceeds of approximately $2,225. The Company issued 57 shares of Common Stock, valued at approximately $1,176, as part of the acquisition of Audio Graphics, which occurred during the quarter ended July 24, 1999. 53 shares were issued during the quarter ended July 24, 1999 and 4 shares were issued during the quarter ended January 22, 2000.

(In thousands, except per share amounts)

NOTE 3-EARNINGS (LOSS) PER SHARE

The following information presents the Company's computations of basic earnings (loss) per share ("basic EPS") and diluted earnings per share ("diluted EPS") for the periods presented in the consolidated statements of operations:

	Income (Numerator)	Share (Denominator)	Per Share Amount
Three months ended January 22, 2000:			
Basic and Diluted EPS	$(3,032)	17,434	$ (0.17)
Three months ended January 23, 1999:			
Basic and Diluted EPS	$(3,298)	14,579	$ (0.23)
Nine months ended January 22, 2000:			
Basic and EPS	$20,516	17,417	$ (1.18)
Effect of dilutive employee stock options	-	8	
Diluted EPS	$20,516	17,425	$ (1.18)
Nine months ended January 23, 1999:			
Basic EPS	$10,695	14,625	$ 0.73
Effect of dilutive employee stock options	-	40	
Diluted EPS	$10,695	14,665	$ 0.73

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

NOTE 4-ACCOUNTING PRONOUNCEMENT

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

NOTE 5-BUSINESS COMBINATIONS

During the fiscal period ended April 24, 1999, the Company completed five business combinations which were accounted for under the purchase method of accounting.

In the first three months of fiscal 2000, the Company made one insignificant acquisition, which was accounted for under the purchase method of accounting, for an aggregate purchase price of $2,356, resulting in goodwill of $1,914, which will be amortized over 40 years. The results of this acquisition have been included in the Company's results from the respective date of acquisition. During the third quarter ended January 22, 2000, a transaction was completed in which the Company purchased certain assets and retained certain employees which represented a piece of a business. This transaction resulted in recording goodwill of $272. The pro forma results of these transactions are not included below as they have an immaterial impact on the pro forma financial results.

(In thousands, except per share amounts)

The following presents the unaudited pro forma results of operations of the Company for the three and nine month periods ended January 22, 2000 and January 23, 1999, and includes the Company's unaudited consolidated financial statements, which give retroactive effect to the acquisitions as if all such purchase acquisitions had been made at the beginning of fiscal 1999. The results presented below include certain pro forma adjustments to reflect the amortization of intangible assets, adjustments to interest expense, and the inclusion of a federal income tax provision on all earnings for the periods ended January 22, 2000 and January 23, 1999, respectively:

	Three Months Ended		Nine Months Ended	
	January 22, 2000	January 23, 1999	January 22, 2000	January 23, 1999
Revenues	$97,244	$98,150	$523,131	$528,111
Net income	(3,032)	(3,834)	20,509	11,298
Net income per share:				
Basic	$ (0.17)	$ (0.26)	$ 1.18	$ 0.76
Diluted	$ (0.17)	$ (0.26)	$ 1.18	$ 0.75

The unaudited pro forma results of operations are prepared for comparative purposes only and do not necessarily reflect the results that would have occurred had the acquisitions occurred at the beginning of fiscal 1999 or the results that may occur in the future. The pro forma results include the results from businesses acquired, including product lines and business segments that have been discontinued subsequent to the Company's acquisition of the business.

NOTE 6-SEGMENT INFORMATION

During the third quarter of fiscal 2000, the Company modified its segment reporting by identifying information for a third business segment, the Internet business segment. This segment includes business generated by products supplied through the Internet and products supplied for use with the Internet. Effective October 24, 1999, the Company began to separately track financial information for this segment, and assign certain management personnel the responsibility of monitoring this information and focusing on the expansion of the Company's Internet business. The Company is unable to segregate information for the Internet business segment for fiscal 1999 and the first two quarters of fiscal 2000; therefore, results for this segment prior to the three months ended January 22, 2000 are included in both the Traditional and Specialty business segments.

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

(In thousands, except per share amounts)

The following table presents segment information (as stated above, information for the three and nine months ended January 23, 1999 reflects the Company's segment information as previously reported, which did not separately identify the Internet segment. This segment is only separately identifiable beginning with the third quarter of fiscal 2000. Any Internet segment results for fiscal 1999 and the first two quarters of fiscal 2000 are included in both the Traditional and Specialty segments):

	Three Months Ended		Nine Months Ended	
	January 22, 2000	January 23, 1999	January 22, 2000	January 23, 1999
Revenues:				
Traditional	$ 55,300	$ 55,347	$324,658	$288,550
Specialty	40,836	30,012	197,365	135,782
Internet	1,108	-	1,108	-
Total	$ 97,244	$ 85,359	$523,131	$424,332
Operating Profit (Loss) and Pretax Profit (Loss)				
Traditional	$ 582	$ (1,816)	$ 34,038	$ 22,752
Specialty	1,344	1,116	25,331	16,867
Internet	(1,070)	-	(1,070)	-
Total	856	(700)	58,299	39,619
General Corporate Expense	3,101	1,683	9,279	4,728
One Time Charges	-	-	-	5,274
Interest Expense and Other	3,585	3,842	10,388	8,828
Income Before Taxes	$ (5,830)	$ (6,225)	$ 38,632	$ 20,789
Identifiable Assets (at quarter end):				
Traditional	$237,731	$248,341	$237,731	$248,341
Specialty	171,296	119,656	171,296	119,656
Internet	4,504	-	4,504	-
Total	413,531	367,997	413,531	367,997
Corporate Assets	28,267	10,516	28,267	10,516
Total	$441,798	$378,513	$441,798	$378,513

Depreciation and

Amortization:				
Traditional	$ 1,475	$ 1,712	$ 4,832	$ 4,213
Specialty	1,191	722	3,705	2,029
Internet	306	-	306	-
Total	2,972	2,434	8,843	6,242
Corporate	345	132	733	365
Total	$ 3,317	$ 2,566	$ 9,576	$ 6,607
Expenditures for Property and Equipment:				
Traditional	$ 1,695	$ 214	$ 4,715	$ 709
Specialty	851	1,188	3,370	2,084
Internet	356	-	356	-
Total	2,902	1,402	8,441	2,793
Corporate	12	706	2,257	1,185
Total	$ 2,914	$ 2,108	$ 10,698	$ 3,978

NOTE 7-RESTRUCTURING COSTS

During the first quarter of fiscal 1999, the Company recorded a one-time charge of $1,074, which is discussed in the fiscal 1999 Form 10-K. This non-cash charge related to compensation expense attributed to the U.S. Office Product's stock option tender offer and sale of shares of Common Stock to some of the Company's executive management personnel, net of underwriting discounts.

During the second quarter of fiscal 1999, the Company recorded a $4,200 restructuring charge, which is discussed in the fiscal 1999 Form 10-K. This charge was for the Company's plan to consolidate existing warehousing, customer service and sales operations. Under this restructuring plan, the Company expects to eliminate approximately 240 jobs. During the three and nine months ended January 23, 1999, the Company terminated 49 and 99 employees, respectively, under the plan. During the three and nine months ended January 22, 2000, the Company terminated 13 and 36 employees, respectively, under the plan.

During the fourth quarter of fiscal 1998, the Company incurred restructuring costs to close redundant facilities and related severance costs. The liability associated with this restructuring plan was $472 as of April 25, 1998. This restructuring plan was completed by the end of fiscal 1999.

Selected information related to the restructuring reserve follows:

Restructuring Charge (In Thousands)	Employee Termination Benefits	Facility Closure and Consolidation	Other Asset Write-downs and Costs	Total
April 25, 1998 liability balance	$ 214	$ -	$ 258	$ 472
Additions - restructuring charge:				
Second quarter,				

fiscal 1999	2,100	1,300	800	4,200
Utilizations:				
First quarter, fiscal 1999	(148)	-	(119)	(267)
Second quarter, fiscal 1999	(66)	-	(139)	(205)
Third quarter, fiscal 1999	(231)	-	(331)	(562)
Fourth quarter, fiscal 1999	(584)	(199)	(103)	(886)
April 24, 1999 liability balance	$ 1,285	$ 1,101	$ 366	$ 2,752
Utilizations:				
First quarter, fiscal 2000	(351)	(47)	-	(398)
Second quarter, fiscal 2000	(236)	(122)	(54)	(412)
Third quarter, fiscal 2000	(396)	(531)	-	(927)
January 22, 2000 liability balance	$ 302	$ 401	$ 312	$ 1,015

NOTE 8-RELATED PARTY TRANSACTION

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

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

Results of Operations

The following table sets forth various items as a percentage of revenues on a historical basis.

	Three Months Ended		Nine Months Ended	
	January 22, 2000	January 23, 1999	January 22, 2000	January 23, 1999
Revenues	100.0%	100.0%	100.0%	100.0%
Cost of revenues	65.6	67.1	63.8	66.3
Gross profit	34.4	32.9	36.2	33.7
Selling, general and administrative expenses	36.7	35.7	26.8	25.4
Restructuring costs	-	-	-	1.3
Operating income (loss)	(2.3)	(2.8)	9.4	7.0
Interest and other	3.7	4.5	2.0	2.1
Income (loss) before provision for (benefit from) income taxes	(6.0)	(7.3)	7.4	4.9
Provision for (benefit from) income taxes	(2.9)	(3.4)	3.5	2.4
Net income (loss)	(3.1)%	(3.9)%	3.9%	2.5%

Three Months Ended January 22, 2000 Compared to the Three Months Ended January 23, 1999

Revenues

Revenues increased 13.9% from $85.4 million for the three months ended January 23, 1999, to $97.2 million for the three months ended January 22, 2000. This increase was primarily due to internal growth on existing business and the inclusion of revenues from the four companies acquired in business combinations accounted for under the purchase method of accounting since January 1999.

Gross Profit

Gross profit improved 19.0% from $28.1 million or 32.9% of revenues for the three months ended January 23, 1999, to $33.4 million or 34.4% of revenues for the three months ended January 22, 2000. The increase in gross profit as a percentage of revenues was due primarily to (1) an increase in specialty business revenue, where proprietary products generate higher gross margins than the traditional business, (2) an improvement in specialty business gross margin due primarily to contributions from the Sportime acquisition and a more favorable product mix and (3) a decline in traditional gross margin, driven by a less favorable product mix, which was weighted toward furniture and equipment, a lower gross margin product line than consumables.

Selling, General and Administrative Expenses

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

Selling, general and administrative expenses increased 17.1% from $30.5 million or 35.7% of revenues for the three months ended January 23, 1999, to $35.7 million or 36.7% of revenues for the three months ended January 22, 2000. The increase in selling, general and administrative expenses is primarily due to the increase in revenue. The increase in selling, general and administrative expenses as a percent of revenues is primarily due to (1) a shift in revenue mix to specialty business, which has higher selling, general and administrative expenses than the traditional business, (2) higher amortization expense due to goodwill amortization related to the four acquisitions since the end of January 1999 and (3) expenses attributable to the newly created internet segment. These increases are offset by reduced selling, general and administrative expenses in the traditional business, which is primarily due to the

integration of Beckley-Cardy and the restructuring of the traditional business, which began in the second quarter of fiscal 1999.

Net Interest Expense and Other Expenses

Interest expense, net of interest income, decreased from $3.8 million or 4.5% of revenues for the three months ended January 23, 1999 to $3.2 million or 3.3% of revenues for the three months ended January 22, 2000. The decrease in interest expense is primarily attributed to a reduction in debt outstanding, which is primarily due to the repayment of debt with the proceeds from our secondary offering, offset by the debt assumed and cash paid for the four companies acquired since the end of January 1999. Other expenses of $382 for the quarter ended January 22, 2000 primarily represented the loss on the disposal of a facility donated to a municipality.

Benefit from Income Taxes

Benefit from income taxes for the three months ended January 22, 2000 and January 23, 1999 was $2.8 million and $2.9 million, respectively, reflecting income tax rates of 48% and 47%, respectively. The higher effective tax rate, compared to the federal statutory rate of 35.0%, is primarily due to state income taxes and non-deductible goodwill amortization.

Nine Months Ended January 22, 2000 Compared to the Nine Months Ended January 23, 1999

Revenues

Revenues increased 23.3% from $424.3 million for the nine months ended January 23, 1999, to $523.1 million for the nine months ended January 22, 2000. This increase was primarily due to internal growth on existing business and the inclusion of revenues from the six companies acquired in business combinations accounted for under the purchase method of accounting since the beginning of fiscal 1999.

Gross Profit

Gross profit increased 32.4% from $142.9 million or 33.7% of revenues for the nine months ended January 23, 1999 to $189.2 million or 36.2% of revenues for the nine months ended January 22, 2000. The increase in gross profit as a percentage of revenues was due primarily to (1) a shift in product mix to increased revenue from specialty business, where proprietary products generate higher gross margins than the traditional business, (2) an improvement in traditional business gross margins, driven primarily by more favorable pricing and the elimination of less profitable products from our product offering and (3) an improvement in specialty business gross margin, which was driven by a more favorable product mix and contributions from Sportime, which was acquired in February 1999 and has higher gross margins than our other businesses.

Selling, General and Administrative Expenses

Selling, general and administrative expenses increased 29.8% from $108.0 million or 25.4% of revenues for the nine months ended January 23, 1999, to $140.2 million or 26.8% of revenues for the nine months ended January 22, 2000. The increase in selling, general and administrative expenses is primarily due to an increase in revenue. The increase in selling, general and administrative expenses as a percent of revenues is primarily due to (1) a shift in revenue mix to specialty business, which has higher selling, general and administrative expenses than the traditional business and (2) higher amortization expense due to goodwill amortization related to the six acquisitions since the beginning of fiscal 1999. These increases are offset by reduced selling, general and administrative expenses in the traditional business, which is primarily due to the integration of Beckley-Cardy and the restructuring of the traditional business, which began in the second quarter of fiscal 1999.

Restructuring Costs

During 1999, we recorded a restructuring charge of

$1,074 in the first quarter and $4,200 in the second quarter, for a total of $5,274 for the nine months ended January 23, 1999. The $1,074 related to a one-time, non-cash charge for compensation expense attributed to the U.S. Office Product's stock option tender offer and sale of shares of Common Stock to some of our executive management personnel, net of underwriting discounts. The $4,200 charge

was for our plan to consolidate existing warehousing, customer service and sales operations. Further details of the restructuring charge are discussed in the Notes to consolidated financial statements.

Net Interest Expense and Other Expenses

Net interest expense increased $1.2 million from $8.8 million or 2.1% of revenues for the nine months ended January 23, 1999 to $10.0 million or 1.9% of revenues for the nine months ended January 22, 2000. The increase in interest expense is primarily attributed to the debt assumed and cash paid for the six companies acquired since the beginning of fiscal 1999, partially offset by debt repaid from the net proceeds of our secondary offering. Other expenses of $391 for the nine months ended January 22, 2000 primarily represented the loss on the disposal of a facility donated to a municipality.

Provision for Income Taxes

Provision for income taxes for the nine months ended January 22, 2000 increased 79.5% or $8.0 million over the nine months ended January 23, 1999, reflecting income tax rates of 46.9% and 48.6% for the nine months ended January 22, 2000 and January 23, 1999, respectively. The higher effective tax rate, compared to the federal statutory rate of 35.0%, is primarily due to state income taxes and non-deductible goodwill amortization.

Liquidity and Capital Resources

We have a five-year secured $350 million revolving Senior Credit Facility with NationsBank. 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 22, 2000 under the Senior Credit Facility was $153.2 million, consisting of $63.2 million outstanding under the revolving loan portion of the facility and $90.0 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 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. Our effective interest rate for the nine months ended January 22, 2000 was approximately 7.5%. During the nine months ended January 22, 2000, we had net repayments under our Senior Credit Facility of $19.3 million, which resulted from strong cash flow from operations offset by capital expenditures for property and equipment and acquisitions.

On April 16, 1999, we sold 2,400,000 shares of common stock in a secondary public offering. On May 17, 1999, we sold an additional 151,410 shares of common stock to cover over-allotments for approximately $2.2 million in net proceeds. The proceeds were used to reduce indebtedness outstanding under our Senior Credit Facility.

At January 22, 2000, we had working capital of $113.6 million. Our capitalization at January 22, 2000 was $379.8 million and consisted of bank debt of $153.2 million and stockholders' equity of $226.6 million.

We anticipate that our cash flow from operations and borrowings available from our existing Senior Credit Facility will be sufficient to meet our liquidity requirements for our operations (including anticipated capital expenditures) and our debt service obligations for the remainder of the fiscal year.

During the nine months ended January 22, 2000, net cash provided by operating activities was $29.1 million. This net provision of cash by operating activities during the period is indicative of the high seasonal nature of our business, with sales occurring in the first and second quarters of the fiscal year and cash receipts in the second and third quarters. Net cash used in investing activities was $13.9 million, including $1.3 million for acquisitions, $10.7 million for additions to property and equipment and $1.9 million for other long-term assets including a minority investment in an Internet business. Net cash used in financing activities was $18.0 million, which consisted primarily of net debt repayments under our Senior Credit Facility.

During the nine months ended January 23, 1999, net cash provided by operating activities was $29.1 million. Net cash used in investing activities was $98.8 million, including $95.0 million for acquisitions. Net cash provided by

financing activities was $69.7 million, and included (1) repayment of debt to U.S. Office Products of $83.0 million, (2) borrowings under the Senior Credit Facility of $302.7 million, offset by debt repayments of $187.9 million. Net borrowings include $16.9 million used to fund the cash portion price of the acquisition of Hammond and Stephens and $134.7 million used to fund the acquisition of Beckley-Cardy (consisting of $78.1 million for the cash potion of the purchase price and $56.6 million for debt repayment), (3) payment of loan fees of $3.0 million, (4) $32.7 million in net proceeds from the issuance of common stock in conjunction with our initial public offering and sale of 250,000 shares of common stock to management, and (5) $8.1 million of contributed capital from U.S. Office Products under a distribution agreement entered into in connection with the spin-off.

In October 1999, we entered into agreements to sell and leaseback four of our distribution facilities, subject to certain contingencies. Due to uncertainty and unfavorable movements in the interest rate environment, we have decided not to proceed with this transaction at this time.

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 the costs for the products we sell, the mix of products sold and general economic conditions. Moreover, the operating margins of companies acquired by us may differ substantially from our own margins, which could contribute to further fluctuation in our 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.

Inflation

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

Year 2000

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

Forward-Looking Statements

Statements in this report which are not strictly historical are "forward looking." In accordance with the Private Securities Litigation Reform Act of 1995, we can obtain a "safe-harbor" for forward-looking statements by identifying those statements and by accompanying those statements with cautionary statements which identify factors that could cause actual results to differ materially from those in the forward-looking statements. Accordingly, the foregoing "Management's Discussions and Analysis of Financial Condition and Results of Operations" contains certain forward-looking statements relating to growth plans and projected revenues, earnings and costs. Our actual results may differ materially from those contained in the forward-looking statements herein. Factors which may cause such a difference to occur include those factors identified in Item 1, "Business - Forward Looking Statements," contained in the Company's Form 10-K for the year ended April 24, 1999, which factors are incorporated herein by reference to such Form 10-K.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

For information as to our Quantitative and Qualitative Disclosures about Market Risk, please see our Annual Report on Form 10-K for the fiscal year ended April 24, 1999. There have been no material changes in our quantitative or qualitative exposure to market risk since the end of fiscal 1999.

PART II - OTHER INFORMATION

Item 2. Changes in Securities and Use of Proceeds

The following information is furnished as to securities of School Specialty sold during the three months ended January 22, 2000 that were not registered under the Securities Act:

In January 2000, we issued 4,332 shares of our common stock to the principal shareholder of Audio Graphic Systems as a post-closing adjustment to the purchase price of the company in connection with our acquisition of such company which closed in May 1999. These shares were issued at an aggregate price of $89,269 (or $20.61 per share). The sale of these shares was exempt from registration pursuant to Section 4(2) of the Securities Act.

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits.

Exhibit No.	Description
3.1	Amended and Restated By-Laws
27.1	Financial Data Schedule

(b) Reports on Form 8-K.

We did not file any reports on Form 8-K during the quarter covered by this report.

SIGNATURES

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

SCHOOL SPECIALTY, INC.
(Registrant)

March 6, 2000	/s/ Daniel P. Spalding
Date	Daniel P. Spalding Chairman of the Board and Chief Executive Officer (Principal Executive Officer)
March 6, 2000	/s/ Mary M. Kabacinski
Date	Mary M. Kabacinski Executive Vice President and Chief Financial Officer (Principal Financial and Accounting Officer)

INDEX TO EXHIBITS

Exhibit No.	Description
3.1	Amended and Restated By-Laws
27.1	Financial Data Schedule

Exhibit 3.1

AMENDED AND RESTATED BY-LAWS OF SCHOOL SPECIALTY, INC.

ARTICLE I
Stockholders

SECTION 1. Annual Meeting; Special Notice Requirements. The annual meeting of the stockholders of the Corporation shall be held on such date, at such time and at such place within or without the State of Delaware as may be designated by the Board of Directors, for the purpose of electing Directors and for the transaction of such other business as may be properly brought before the meeting. For nominations or other business to be properly brought before an annual meeting by a stockholder, the stockholder must have given timely notice thereof in writing to the secretary of the Corporation and such business must be a proper subject for stockholder action under the Delaware General Corporation Law (the "DGCL"). To be timely, a stockholder's notice shall be delivered to the secretary of the Corporation at the principal executive office of the Corporation not less than sixty days nor more than ninety days prior to the first anniversary of the preceding year's annual meeting provided, however, that in the event that the date of the annual meeting is advanced by more than 30 days, or delayed by more than 30 days, from such anniversary date, notice by the stockholder to be timely must be so delivered not earlier than the ninetieth day prior to such annual meeting and not later than either the close of business on (a) the tenth day following the day on which notice of the date of such meeting was mailed or (b) the tenth day following the day on which public announcement of the date of such meeting is first made, whichever first occurs in (a) or (b). Such stockholder's notice shall set forth (x) as to each person whom the stockholder proposes to nominate for election or reelection as a director all information relating to such person that is required to be disclosed in solicitations of proxies for election of directors, or is otherwise required, in each case pursuant to Regulation 14A under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), including such person's written consent to being named in the proxy statement as a nominee and to serving as a director if elected; (y) as to any other business that the stockholder proposes to bring before the meeting, a brief description of the business desired to be brought before the meeting, the reasons for conducting such business at the meeting and material interest in such business of such stockholder and the beneficial owner, if any, on whose behalf the proposal is made; and (z) as to the stockholder giving the notice and the beneficial owner, if any, on whose behalf the nomination or proposal is made (i) the name and address of such stockholder, as they appear on the Corporation's books, and of such beneficial owner and (ii) the class and number of shares of the Corporation which are owned beneficially and of record by such stockholder and such beneficial owner.

SECTION 2. Special Meetings; Special Notice Requirements. Special meetings shall be called in the manner provided in the Certificate of Incorporation. Only such business shall be conducted at a special meeting of stockholders as shall have been brought before the meeting pursuant to the Corporation's notice of meeting and in accordance with these By-Laws. For nominations or other business to be properly brought before a special meeting by a stockholder, the stockholder must have given timely notice thereof in writing to the secretary of the Corporation and such business must be a proper subject for stockholder action under the DGCL. To be timely, a stockholder's notice shall be delivered to the secretary of the Corporation at the principal executive office of the Corporation not less than sixty days nor more than ninety days prior to the special meeting, or the tenth day following the day on which public announcement of the date of such special meeting is first made. Such stockholder's notice shall set forth (x) as to each person whom the stockholder proposes to nominate for election or reelection as a director all information relating to such person that is required to be disclosed in solicitations of proxies for election of directors, or is otherwise required, in each case pursuant to Regulation 14A under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), including such person's written consent to being named in the proxy statement as a nominee and to serving as a director if elected; (y) as to any other business that the stockholder proposes to bring before the meeting, a brief description of the business desired to be brought before the meeting, the reasons for conducting such business at the meeting and any material interest in such business of such stockholder and the beneficial owner, if any, on whose behalf the proposal is made, and (z) as to the stockholder giving the notice and the beneficial owner, if any, on whose behalf the nomination or proposal is made (i) the name and address of such stockholder, as they appear on the Corporation's books, and of such beneficial owner and (ii) the class and number of shares of the Corporation which are owned beneficially and of record by such stockholder and such beneficial owner.

SECTION 3. Notice of Meetings. Except as otherwise provided in these By-Laws or by law, a written notice of each meeting of the stockholders shall be given not less than ten (10) nor more than sixty (60) days before the date of the meeting to each stockholder of the Corporation entitled to vote at such meeting at his address as it appears on the records of the Corporation. The notice shall state the place, date and hour of the meeting and, in the case of a special meeting, the purpose or purposes for which the meeting is called.

SECTION 4. Quorum. At any meeting of the stockholders, the holders of a majority in number of the total outstanding shares of stock of the Corporation entitled to vote at such meeting, present in person or represented by proxy, shall constitute a quorum of the stockholders for all purposes, unless the representation of a larger number of shares shall be required by law, by the Certificate of Incorporation or by these By-Laws, in which case the representation of the number of shares so required shall constitute a quorum; provided that at any meeting of the stockholders at which the holders of any class of stock of the Corporation shall be entitled to vote separately as a class, the holders of a majority in number of the total outstanding shares of such class, present in person or represented by proxy, shall constitute a quorum for purposes of such class vote unless the representation of a larger number of shares of such class shall be required by law, by the Certificate of Incorporation or by these By-Laws.

SECTION 5. Adjourned Meetings. Whether or not a quorum shall be present in person or represented at any meeting of the stockholders, the holders of a majority in number of the shares of stock of the

Corporation present in person or represented by proxy and entitled to vote at such meeting may adjourn from time to time; provided, however, that if the holders of any class of stock of the Corporation are entitled to vote separately as a class upon any matter at such meeting, any adjournment of the meeting in respect of action by such class upon such matter shall be determined by the holders of a majority of the shares of such class present in person or represented by proxy and entitled to vote at such meeting. When a meeting is adjourned to another time or place, notice need not be given of the adjourned meeting if the time

and place thereof are announced at the meeting at which the adjournment is taken. At the adjourned meeting the stockholders, or the holders of any class of stock entitled to vote separately as a class, as the case may be, may transact any business which might have been transacted by them at the original meeting. If the adjournment is for more than thirty days, or if after the adjournment a new record date is fixed for the adjourned meeting, a notice of the adjourned meeting shall be given to each stockholder of record entitled to vote at the adjourned meeting.

SECTION 6. Organization. The Chairman of the Board or, in his absence, the President or any Vice President shall call all meetings of the stockholders to order, and shall act as Chairman of such meetings. In the absence of the Chairman of the Board, the President and all of the Vice Presidents, the holders of a majority in number of the shares of stock of the Corporation present in person or represented by proxy and entitled to vote at such meeting shall elect a Chairman.

The Secretary of the Corporation shall act as Secretary of all meetings of the stockholders; but in the absence of the Secretary, the Chairman may appoint any person to act as Secretary of the meeting. It shall be the duty of the secretary to prepare and make, at least ten days before every meeting of stockholders, a complete list of stockholders entitled to vote at such meeting, arranged in alphabetical order and showing the address of each stockholder and the number of shares registered in the name of each stockholder. Such list shall be open, either at a place within the city where the meeting is to be held, which place shall be specified in the notice of the meeting or, if not so specified, at the place where the meeting is to be held, for the ten days next preceding the meeting, to the examination of any stockholder, for any purpose germane to the meeting, during ordinary business hours, and shall be produced and kept at the time and place of the meeting during the whole time thereof and subject to the inspection of any stockholder who may be present.

SECTION 7. Voting. Except as otherwise provided in the Certificate of Incorporation or by law, each stockholder shall be entitled to one vote for each share of the capital stock of the Corporation registered in the name of such stockholder upon the books of the Corporation. Each stockholder entitled to vote at a meeting of stockholders or to express consent or dissent to corporate action in writing without a meeting may authorize another person or persons to act for him by proxy, but no such proxy shall be voted or acted upon after three years from its date, unless the proxy provides for a longer period. When directed by the presiding officer or upon the demand of any stockholder, the vote upon any matter before a meeting of stockholders shall be by ballot. Except as otherwise provided by-law or by the Certificate of Incorporation, Directors shall be elected by a plurality of the votes cast at a meeting of stockholders by the stockholders entitled to vote in the election and, whenever any corporate action, other than the election of directors is to be taken, it shall be authorized by a majority of the votes cast at a meeting of stockholders by the stockholders entitled to vote thereon.

Shares of the capital stock of the Corporation belonging to the Corporation or to another corporation, if a majority of the shares entitled to vote in the election of directors of such other corporation is held, directly or indirectly, by the Corporation, shall neither be entitled to vote nor be counted for quorum purposes.

SECTION 8. Inspectors. When required by law or directed by the presiding officer or upon the demand of any stockholder entitled to vote, but not otherwise, the polls shall be opened and closed, the proxies and ballots shall be received and taken in charge, and all questions touching the qualification of voters, the validity of proxies and the acceptance or rejection of votes shall be decided at any meeting of the stockholders by two or more Inspectors who may be appointed by the Board of Directors before the meeting, or if not so appointed, shall be appointed by the presiding officer at the meeting. If any person so appointed fails to appear or act, the vacancy may be filled by appointment in like manner.

SECTION 9. No Stockholder Action by Written Consent. Subject to the rights of the holders of any series of preferred stock or any other series or class of stock (excluding common stock) set forth in the Certificate of Incorporation to elect additional directors under specified circumstances or to consent to specific actions taken by the Corporation, any action required or permitted to be taken by the stockholders of the Corporation must be taken at an annual or special meeting of the stockholders and may not be taken by any consent in writing by such stockholders.

ARTICLE II
Board of Directors

SECTION 1. Number and Term of Office. The business and affairs of the Corporation shall be managed by or under the direction of a Board of Directors, none of whom need be stockholders of the Corporation. The number of Directors constituting the Board of Directors shall be fixed from time to time by resolution passed by a majority of the Board of Directors. The Directors shall, except as hereinafter otherwise provided for filling vacancies, be elected at the annual meeting of stockholders, and shall hold office until their respective successors are elected and qualified or until their earlier resignation or removal.

SECTION 2. Removal, Vacancies and Additional Directors. The stockholders may, at any special meeting the notice of which shall state that it is called for that purpose, remove any Director for cause and fill the vacancy; provided that whenever any Director shall have been elected by the holders of any class of stock of the Corporation voting separately as a class under the provisions of the Certificate of Incorporation, such Director may be removed and the vacancy filled only by the holders of that class of stock voting separately as a class. Vacancies caused by any such removal and not filled by the stockholders at the meeting at which such removal shall have been made, or any vacancy caused by the death or resignation of any Director or for any other reason, and any newly created directorship resulting from any increase in the authorized number of Directors, may be filled by the affirmative vote of a majority of the Directors then in office, although less than a quorum, and any Director so elected to fill any such vacancy or newly created directorship shall hold office until his successor is elected and qualified or until his earlier resignation or removal.

When one or more Directors shall resign effective at a future date, a majority of the Directors then in office, including those who have so resigned, shall have power to fill such vacancy or vacancies, the vote thereon to take effect when such resignation or resignations shall become effective, and each Director so chosen shall hold office as herein provided in connection with the filling of other vacancies.

SECTION 3. Place of Meeting. The Board of Directors may hold its meetings in such place or places in the State of Delaware or outside the State of Delaware as the Board from time to time shall determine.

SECTION 4. Regular Meetings. Regular meetings of the Board of Directors shall be held at such times and places as the Board from time to time by resolution shall determine. No notice shall be required for any regular meeting of the Board of Directors; but a copy of every resolution fixing or changing the time or place of regular meetings shall be mailed to every Director at least five days before the first meeting held in pursuance thereof.

SECTION 5. Special Meetings. Special meetings of the Board of Directors shall be held whenever called by direction of the Chairman of the Board, the President or by any two of the Directors then in office.

Notice of the day, hour and place of holding of each special meeting shall be given by mailing the same at least two days before the meeting or by causing the same to be transmitted by telegraph, cable or wireless at least one day before the meeting to each Director. Unless otherwise indicated in the notice thereof, any and all business other than an amendment of these By-Laws may be transacted at any special meeting, and an amendment of these By-Laws may be acted upon if the notice of the meeting shall have stated that the amendment of these By-Laws is one of the purposes of the meeting. At any meeting at which every Director shall be present, even though without any notice, any business may be transacted, including the amendment of these By-Laws.

SECTION 6. Quorum. Subject to the provisions of Section 2 of this Article II, a majority of the members of the Board of Directors in office (but in no case less than one-third of the total number of Directors nor less than two Directors) shall constitute a quorum for the transaction of business and the vote of the majority of the Directors present at any meeting of the Board of Directors at which a quorum is present shall be the act of the Board of Directors. If at any meeting of the Board there is less than a quorum present, a majority of those present may adjourn the meeting from time to time.

SECTION 7. Organization. The Chairman of the Board shall preside at all meetings of the Board of Directors. In the absence of the Chairman of the Board, an acting Chairman shall be elected from the Directors present to preside at such meeting. The Secretary of the Corporation shall act as Secretary of all meetings of the Directors; but in the absence of the Secretary, the Chairman may appoint any person to act as Secretary of the meeting.

SECTION 8. Committees. The Board of Directors may, by resolution passed by a majority of the whole Board, designate one or more committees, each committee to consist of one or more of the Directors of the Corporation. The Board may designate one or more Directors as alternate members of any committee, who may replace any absent or disqualified member at any meeting of the committee. In the absence or disqualification of a member of a committee, the member or members thereof present at any meeting and not disqualified from voting, whether or not he or they constitute a quorum, may unanimously appoint another member of the Board of Directors to act at the meeting in the place of any such absent or disqualified member. Any such committee, to the extent provided by resolution passed by a majority of the whole Board, shall have and may exercise all the powers and authority of the Board of Directors in the management of the business and the affairs of the Corporation, and may authorize the seal of the Corporation to be affixed to all papers which may require it; but no such committee shall have the power or authority in reference to amending the Certificate of Incorporation, adopting an agreement of merger or consolidation, recommending to the stockholders the sale, lease or exchange of all or substantially all of the Corporation's property and assets, recommending to the stockholders a dissolution of the Corporation or a revocation of a dissolution, or amending these By-Laws; and unless such resolution, these By-laws, or the Certificate of Incorporation expressly so provide, no such committee shall have the power or authority to declare a dividend or to authorize the issuance of stock.

SECTION 9. Conference Telephone Meetings. Unless otherwise restricted by the Certificate of Incorporation or by these By-Laws, the members of the Board of Directors or any committee designated by the Board, may participate in a meeting of the Board or such committee, as the case may be, by means of conference telephone or similar communications equipment by means of which all persons participating in the meeting can hear each other, and such participation shall constitute presence in person at such meeting.

SECTION 10. Consent of Directors or Committee in Lieu of Meeting. Unless otherwise restricted by the Certificate of Incorporation or by these By-Laws, any action required or permitted to be taken at any meeting of the, Board of Directors, or of any committee thereof, may be taken without a meeting if all members of the Board or committee, as the case may be, consent thereto in writing and the writing or writings are filed with the minutes of proceedings of the Board or committee, as the case may be.

ARTICLE III
Officers

SECTION 1. Officers. The officers of the Corporation shall be a Chairman of the Board, a President, one or more Vice Presidents, a Secretary and a Treasurer, and such additional officers, if any, as shall be elected by the Board of Directors pursuant to the provisions of Section 7 of this Article III. The Chairman of the Board, the President, one or more Vice Presidents, the Secretary and the Treasurer shall be elected by the Board of Directors at its first meeting after each annual meeting of the stockholders. The failure to hold such election shall not of itself terminate the term of office of any officer. All officers shall hold office at the pleasure of the Board of Directors. Any officer may resign at any time upon written notice to the Corporation. Officers may, but need not, be Directors. Any number of officers may be held by the same person.

All officers, agents and employees shall be subject to removal, with or without cause, at any time by the Board of Directors. The removal of an officer without cause shall be without prejudice to his contract rights, if any. The election or appointment of an officer shall not of itself create contract rights. All agents and employees other than officers elected by the Board of Directors shall also be subject to removal, with or without cause, at any time by the officers appointing them.

Any vacancy caused by the death of any officer, his resignation, his removal, or otherwise, may be filled by the Board of Directors, and any officer so elected shall hold office at the pleasure of the Board of Directors.

In addition to the powers and duties of the officers of the Corporation as set forth in these By-Laws, the officers shall have such authority and shall perform such duties as from time to time may be determined by the Board of Directors.

Notwithstanding anything to the contrary in this Section 1, the President and/or the Chief Executive Officer of the Corporation shall have the right, without approval by the Board of Directors, to remove or elect Assistant Secretaries and Assistant Treasurers of the Corporation. As required under Section 7 of this Article, the powers of such Assistant Secretaries and Assistant Treasurers shall be those as have been historically performed by holders of such offices for the Corporation. Such duties shall include the certification of officer signatures and the entering into of forms which have been approved by other properly authorized officers of the Corporation.

SECTION 2. Powers and Duties of the Chairman of the Board. The Chairman of the Board shall be subject to the control of the Board of Directors, and shall have such powers and shall perform such duties as may be assigned to him from time to time by these By-Laws or by the Board of Directors. In addition, he shall preside at all meetings of the stockholders and at all meetings of the Board of Directors and shall have such other powers and perform such other duties as may from time to time be assigned to him by these By-Laws or by the Board of Directors. All actions heretofore taken by the Chairman of the Board in the name or on behalf of the Corporation, including the execution and delivery in the name and on behalf of the Corporation of agreements, bonds, contracts, deeds, mortgages, certificates for shares of stock of the Corporation and other instruments, documents and certificates are in all respects ratified, approved, confirmed and adopted as of the date of such action, execution or delivery, with the same effect as if expressly authorized by the By-laws of the Corporation on the date thereof.

SECTION 3. Powers and Duties of the President. Unless otherwise specified by the Board of Directors, the President shall be the Chief Executive Officer of the Corporation and, subject to the control of the Board of Directors, shall have general charge and control of all the Corporation's business and affairs, and shall have all powers and perform all duties incident to the office of President. In the absence of the Chairman of the Board, he shall preside at all meetings of the stockholders and at all meetings of the Board of Directors and shall have such other powers and perform such other duties as may from time to time be assigned to him by these By-Laws or by the Board of Directors.

SECTION 4. Powers and Duties of the Vice Presidents. Each Vice President shall have all powers and shall perform all duties incident to the office of Vice President and shall

have such other powers and perform such other duties as may from time to time be assigned to him by these By-Laws or by the Board of Directors or the President.

SECTION 5. Powers and Duties of the Secretary. The Secretary shall keep the minutes of all meetings of the Board of Directors and the minutes of all meetings of the stockholders in books provided for that purpose; he shall attend to the giving or serving of all notices of the Corporation; he shall have custody of the corporate seal of the Corporation and shall affix the same to such documents and other papers as the Board of Directors or the President shall authorize and direct; he shall have charge of the stock certificate books, transfer books and stock ledgers and such other books and papers as the Board of Directors or the President shall direct, all of which shall at all reasonable times be open to the examination of any Director, upon application, at the office of the Corporation during business hours; and shall have all powers and shall perform all duties incident to the office of Secretary and shall also have such other powers and shall perform such other duties as may from time to time be assigned to him by these By-Laws or by the Board of Directors or the President.

SECTION 6. The Powers and Duties of the Treasurer. The Treasurer shall have custody of, and when proper shall pay out, disburse or otherwise dispose of, all funds and securities of the Corporation which may have come into his hands; he may endorse on behalf of the Corporation for collection checks, notes and other obligations and shall deposit the same to the credit of the Corporation in such bank or banks or depositary or depositaries as the Board of Directors may designate; he shall sign all receipts and vouchers for payments made to the Corporation; he shall enter or cause to be entered regularly in the books of the Corporation kept for the purpose full and accurate accounts of all moneys received or paid or otherwise disposed of by him and whenever required by the Board of Directors or the President shall render statements of such accounts; he shall, at all reasonable times, exhibit his books and accounts to any Director of the Corporation upon application at the office of the Corporation during business hours; and he shall have all powers and he shall perform all duties incident to the office of Treasurer and shall also have such other powers and shall perform such other duties as may from time to time be assigned to him by these By-Laws or by the Board of Directors or the President.

SECTION 7. Additional Officers. The Board of Directors may from time to time elect such other officers (who may but need not be Directors), including a Controller, Assistant Treasurers, Assistant Secretaries and Assistant Controllers, as the Board may deem advisable and such officers shall have such authority and shall perform such duties as may from time to time be assigned to them by the Board of Directors or the President.

The Board of Directors may from time to time by resolution delegate to any Assistant Treasurer or Assistant Treasurers any of the powers or duties herein assigned to the Treasurer; and may similarly delegate to any Assistant Secretary or Assistant Secretaries any of the powers or duties herein assigned to the Secretary.

SECTION 8. Giving of Bond by Officers. All officers of the Corporation, if required to do so by the Board of Directors, shall furnish bonds to the Corporation for the faithful performance of their duties, in such penalties and with such conditions and security as the Board shall require.

SECTION 9. Voting Upon Stocks. Unless otherwise ordered by the Board of Directors, the President or any Vice President shall have full power and authority on behalf of the Corporation to attend and to act and to vote, or in the name of the Corporation to execute proxies to vote, at any meeting of stockholders of any corporation in which the Corporation may hold stock, and at any such meeting shall possess and may exercise, in person or by proxy, any and all rights, powers and privileges incident to the ownership of such stock. The Board of Directors may from time to time, by resolution, confer like powers upon any other person or persons.

SECTION 10. Compensation of Officers. The officers of the Corporation shall be entitled to receive such compensation for their services as shall from time to time be determined by the Board of Directors.

ARTICLE IV
Indemnification of Directors and Officers

SECTION 1. Nature of Indemnity. The Corporation shall indemnify any person who was or is a party or is threatened to be made a party to any threatened, pending or completed action, suit or proceeding, whether civil, criminal, administrative or investigative, by reason of the fact that he is or was or has agreed to become a Director or officer of the Corporation, or is or was serving or has agreed to serve at the request of the Corporation as a Director or officer of another corporation, partnership, joint venture, trust or other enterprise, or by reason of any action alleged to have been taken or omitted in such capacity, and may indemnify any person who was or is a party or is threatened to be made a party to such an action, suit or proceeding by reason of the fact that he is or was or has agreed to become an employee or agent of the Corporation, or is; or was serving or has agreed to serve at the request of the Corporation as an employee or agent of another corporation, partnership, joint venture, trust or other enterprise, against expenses (including attorneys' fees), judgments, fines and amounts paid in settlement actually and reasonably incurred by him or on his behalf in connection with such action, suit or proceeding and any appeal therefrom, if he acted in good faith and in a manner he reasonably believed to be in or not opposed to the best interests of the Corporation, and, with respect to any criminal action or proceeding, had no reasonable cause to believe his conduct was unlawful; except that in the case of an action or suit by or in the right of the Corporation to procure a Judgment in its favor (1) such indemnification shall be limited to expenses (including attorneys' fees) actually and reasonably incurred by such person in the defense or settlement of such action or suit, and (2) no indemnification shall be made in respect of any claim, issue or matter as to which such person shall have been adjudged to be liable to the Corporation unless and only to the extent that the Delaware Court of Chancery or the court in which such action or suit was brought shall determine upon application that, despite the adjudication of liability but in view of all the circumstances of the case, such person is fairly and reasonably entitled to indemnity for such expenses which the Delaware Court of Chancery or such other court shall deem proper.

The termination of any action, suit or proceeding by judgment, order, settlement, conviction, or upon a plea of nolo contendere or its equivalent, shall not, of itself, create a presumption that the person did not act in good faith and in a manner which he reasonably

believed to be in or not opposed to the best interests of the Corporation, and, with respect to any criminal action or proceeding, had reasonable cause to believe that his conduct was unlawful.

SECTION 2. Successful Defense. To the extent that a Director, officer, employee or agent of the Corporation has been successful on the merits or otherwise in defense of any action, suit or proceeding referred to in Section 1 of this Article IV or in defense of any claim, issue or matter therein, he shall be indemnified against expenses (including attorneys' fees) actually and reasonably incurred by him in connection therewith.

SECTION 3. Determination that Indemnification is Proper. Any indemnification of a Director or officer the Corporation under Section 1 of this Article IV (unless ordered by a court) shall be made by the Corporation unless a determination is made that indemnification of the Director or officer is not proper in the circumstances because he has not met the applicable standard of conduct set forth in Section 1. Any indemnification of an employee or agent of the Corporation under Section 1 (unless ordered by a court) may be made by the Corporation upon a determination that indemnification of the employee or agent is proper in the circumstances because he has met the applicable standard of conduct set forth in Section 1. Any such determination shall be made (1) by the Board of Directors by a majority vote of a quorum consisting of Directors who were not parties to such action, suit or proceeding, or (2) if such a quorum its not obtainable, or, even if obtainable a quorum of disinterested Directors so directs, by independent legal counsel in a written opinion, or (3) by the stockholders.

SECTION 4. Advance Payment of Expenses. Unless the Board of Directors otherwise determines in a specific case, expenses incurred by a Director or officer in defending a civil or criminal action, suit or proceeding shall be paid by the Corporation in advance of the final disposition of such action, suit or proceeding upon receipt of an undertaking by or on behalf of the Director or officer to repay such amount if it shall ultimately be determined that he is not entitled to be indemnified by the Corporation as authorized in this Article IV. Such expenses incurred by other employees and agents may be so paid upon such terms and conditions, if any, as the Board of Directors deems appropriate. The Board of Directors may authorize the Corporation's legal counsel to represent such Director, officer, employee or agent in any action, suit or proceeding, whether or not the Corporation is a party to such action, suit or proceeding.

SECTION 5. Survival: Preservation of Other Rights. The foregoing indemnification provisions shall be deemed to be a contract between the Corporation and each Director, officer, employee and agent who serves in any such capacity at any time while these provisions as well as the relevant provisions of the Delaware General Corporation Law are in effect and any repeal or modification thereof shall not affect any right or obligation then existing with respect to any state of facts then or previously existing or any action, suit, or proceeding previously or thereafter brought or threatened based in whole or in part upon any such state of facts. Such a contract right may not be modified retroactively without the consent of such Director, officer, employee or agent.

The indemnification provided by this Article IV shall not be deemed exclusive of any other rights to which those indemnified may be entitled under any by-law, agreement, vote of stockholders or disinterested Directors or otherwise, both as to action in his official capacity

and as to action in another capacity while holding such office, and shall continue as to a person who has ceased to be a Director, officer, employee or agent and shall inure to the benefit of the heirs, executors and administrators of such a person. The corporation may enter into an agreement with any of its Directors, officers, employees or agents providing for indemnification and advancement of expenses, including attorneys fees, that may change, enhance, qualify or limit any right to indemnification or advancement of expenses created by this Article IV.

SECTION 6. Severability. Article IV or any portion hereof shall be invalidated on any ground by any court of competent jurisdiction, then the Corporation shall nevertheless indemnify each Director or officer and may indemnify each employee or agent of the Corporation as to costs, charges and expenses (including attorneys' fees), judgment, fines and amounts paid in settlement with respect to any action, suit or proceeding, whether civil, criminal, administrative or investigative, including an action by or in the right of the Corporation, to the fullest extent permitted by any applicable portion of this Article IV that shall not have been invalidated and to the fullest extent permitted by applicable law.

SECTION 7. Subrogation. In the event of payment of indemnification to a person described in Section 1 of this Article IV, the Corporation shall be subrogated to the extent of such payment to any right of recovery such person may have and such person, as a condition of receiving indemnification from the Corporation, shall execute all documents and do all things that the Corporation may deem necessary or desirable to perfect such right of recovery, including the execution of such documents necessary to enable the Corporation effectively to enforce any such recovery.

SECTION 8. No Duplication of Payments. The Corporation shall not be liable under this Article IV to make any payment in connection with any claim made against a person described in Section 1 of this Article IV to the extent such person has otherwise received payment (under any insurance policy, by-law or otherwise) of the amounts otherwise indemnifiable hereunder.

ARTICLE V
Stock-Seal-Fiscal Year

SECTION 1. Certificates For Shares of Stock. The certificates for shares of stock of the Corporation shall be in such form, not inconsistent with the Certificate of Incorporation, as shall be approved by the Board of Directors. All certificates shall be signed by the Chairman of the Board, the President or a Vice President and by the Secretary or an Assistant Secretary or the Treasurer or an Assistant Treasurer, and shall not be valid unless so signed.

In case any officer or officers who shall have signed any such certificate or certificates shall cease to be such officer or officers of the Corporation, whether because of death, resignation or otherwise, before such certificate or certificates shall have been delivered by the Corporation, such certificate or certificates may nevertheless be issued and delivered as through the person or persons who signed such certificate or certificates had not ceased to be such officer or officers of the corporation.

All certificates for shares of stock shall be consecutively numbered as the same are issued. The name of the person owning the shares represented thereby with the number of such shares and the date of issue thereof shall be entered on the books of the corporation.

Except as hereinafter provided, all certificates surrendered to the Corporation for transfer shall be canceled, and no new certificates shall be issued until former certificates for the same number of shares have been surrendered and canceled.

SECTION 2. Lost, Stolen or Destroyed Certificates. Whenever a person owning a certificate for shares of stock of the Corporation alleges that it has been lost, stolen or destroyed, he shall file in the office of the Corporation an affidavit setting forth, to the best of his knowledge and belief, the time, place and circumstances of the loss, theft or destruction, and, if required by the Board of Directors, a bond of indemnity or other indemnification sufficient in the opinion of the Board of Directors to indemnify the Corporation and its agents against any claim that may be made against it or them on account of the alleged loss, theft or destruction of any such certificate or the issuance of a new certificate in replacement therefor. Thereupon the Corporation may cause to be issued to such person a new certificate in replacement for the certificate alleged to have been lost, stolen or destroyed. Upon the stub of every new certificate so issued shall be noted the fact of such issue and the number, date and the name of the registered owner of the lost, stolen or descried certificate in lieu of which the new certificate is issued.

SECTION 3. Transfer of Shares. Shares of stock of the Corporation shall be transferred on the books of the Corporation by the holder thereof, in person or by his attorney duly authorized in writing, upon surrender and cancellation of certificates for the number of shares of stock to be transferred, except as provided in Section 2 of this Article.

SECTION 4. Regulations. The Board of Directors shall have power and authority to make such rules and regulations as it may deem expedient concerning the issue, transfer and registration of certificates for shares of stock of the Corporation.

SECTION 5. Record Date. In order that the Corporation may determine the stockholders entitled to notice of or to vote at any meeting of stockholders or any adjournment thereof, or to express consent to corporate action in writing without a meeting or to receive payment of any dividend or other distribution or allotment, of any rights, or to exercise any rights in respect of any change, conversion or exchange of stock; or for the purpose of any other lawful action, as the case may be, the Board of Directors may fix, in advance, a record date, which shall not be (i) more than sixty (60) nor less than ten (10) days before the date of such meeting, or (ii) in the case of corporate action to be taken by consent in writing without a meeting, prior to, or more than ten (10) days after, the date upon which the resolution fixing the record date is adopted by the Board of Directors, or (iii) more than sixty (60) days prior to any other action.

If no record date is fixed, the record date for determining stockholders entitled to notice of or to vote at a meeting of stockholders shall be at the close of business on the day next preceding the day on which notice is given or, if notice is waived, at the close of business on the

day next preceding the day on which the meeting is held; the record date for determining stockholders entitled to express consent to corporate action in writing without a meeting, when no prior action by the Board of Directors is necessary, shall be the day on which the first written consent is delivered to the Corporation and the record date for determining stockholders for any other purpose shall be at the close of business on the day on which the Board of Directors adopts the resolution relating thereto. A determination of stockholders of record entitled to notice of or to vote at a meeting of stockholders shall apply to any adjournment of the meeting; provided, however, that the Board of Directors may fix a new record date for the adjourned meeting.

SECTION 6. Dividends. Subject to the provisions of the Certificate of Incorporation, the Board of Directors shall have power to declare and pay dividends upon shares of stock of the Corporation, but only out of funds available for the payment of dividends as provided by law.

Subject to the provisions of the Certificate of Incorporation, any dividends declared upon the stock of the Corporation shall be payable on such date or dates as the Board of Directors shall determine. If the date fixed for the payment of any dividend shall in any year fall upon a legal holiday, then the dividend payable on such date shall be paid on the next day not a legal holiday.

SECTION 7. Corporate Seal. The Board of

Directors shall provide a suitable seal containing the name of the Corporation, which seal shall be kept in the custody of the Secretary and/or any Assistant Secretary. A duplicate of this seal may be kept and used by any Secretary, Assistant Secretary, Vice-President, President, or Chief Executive Officer of the Corporation in conjunction with properly authorized actions without further action by the Board of Directors.

SECTION 8. Fiscal Year. The fiscal year of the Corporation shall be such fiscal year as the Board of Directors from time to time by resolution shall determine.

ARTICLE VI
Miscellaneous Provisions.

SECTION 1. Checks, Notes, Etc. All checks, drafts, bills of exchange, acceptances, notes or other obligations or orders for the payment of money shall be signed and, if so required by the Board of Directors, countersigned by such officers of the Corporation and/or other persons as the Board of Directors from time to time shall designate.

Checks, drafts, bills of exchange, acceptances, notes, obligations and orders for the payment of money made payable to the Corporation may be endorsed for deposit to the credit of the Corporation with a duly authorized depository by the Treasurer and/or such other officers or persons as the Board of Directors from time to time may designate.

SECTION 2. Loans. No loans and no renewals of any loans shall be contracted on behalf of the Corporation except as authorized by the Board of Directors. When authorized to do so, any officer or agent of the Corporation may effect loans and advances for the Corporation from any bank, trust company or other institution or from any firm, corporation or individual,

and for such loans and advances may make, execute and deliver promissory notes, bonds or other evidences of indebtedness of the Corporation. When authorized so to do, any officer of the Corporation may pledge, hypothecate or transfer, as security for the payment of any and all loans, advances, indebtedness and liabilities of the corporation, any and all stocks, securities and other personal property at any time held by the Corporation, and to that end may endorse, assign and deliver the same. Such authority may be general or confined to specific instances.

SECTION 3. Contracts. Except as other wise provided in these By-Laws or by law or as otherwise directed by the Board of Directors, the Chairman of the Board, the President or any Vice President shall be authorized to execute and deliver, in the name and on behalf of the corporation, all agreements, bonds, contracts, deeds, mortgages, and other instruments, either for the Corporation's own account or in a fiduciary or other capacity, and the seal of the corporation, if appropriate, shall be affixed thereto by any of such officers or the Secretary or an Assistant Secretary. The Board of Directors, the Chairman of the Board, the President or any Vice President designated by the Board of Directors, the Chairman of the Board or the President may authorize any other officer, employee or agent to execute and deliver, in the name and on behalf of the Corporation, agreements, bonds, contracts, deeds, mortgages, and other instruments, either for the Corporation's own account or in a fiduciary or other capacity, and, if appropriate, to affix the seal of the Corporation thereto. The grant of such authority by the Board or any such officer may be general or confined to specific instances.

SECTION 4. Waivers of Notice. Whenever any notice whatever is required to be given by law, by the Certificate of Incorporation or by these By-Laws to any person or persons, a waiver thereof in writing, signed by the person or persons entitled to the notice, whether before or after the time stated therein, shall be deemed equivalent thereto.

SECTION 5. Offices Outside of Delaware. Except as otherwise required by the laws of the State of Delaware, the Corporation may have an office or offices and keep its books, documents and papers outside of the State of Delaware at such place or places as from time to time may be determined by the Board of Directors or the Chairman of the Board.

ARTICLE VII

Amendments

These By-Laws and any amendment thereof may be altered, amended or repealed, or new By-Laws may be adopted, by the Board of Directors at any regular or special meeting by the affirmative vote of a majority of all of the members of the Board, provided in the case of any special meeting at which all of the members of the Board are not present, that the notice of such meeting shall have stated that the amendment of these By-Laws was one of the purposes of the meeting; but these By-Laws and any amendment thereof may be altered, amended or repealed or new By-Laws may be adopted by the holders of 66b% of the total outstanding stock of the Corporation entitled to vote at any annual meeting or at any special meeting, provided, in the case of any special meeting, that notice of such proposed alteration, amendment, repeal or adoption is included in the notice of the meeting.

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