

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF
THE SECURITIES EXCHANGE ACT OF 1934: For the
fiscal year ended April 29, 2000

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR
15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

Commission File No. 000-24385

SCHOOL SPECIALTY, INC.

(Exact name of Registrant as specified in its charter)

Delaware 39-0971239
(State or other jurisdiction of (I.R.S. Employer
incorporation or organization) Identification No.)

1000 North Bluemound Drive 54914
Appleton, Wisconsin (Address of principal executive offices) (Zip Code)

Registrant's telephone number, including area code: (920) 734-5712

Securities registered pursuant to Section 12(b) of the Act: None

Securities registered pursuant to Section 12(g) of the Act:

Common Stock, \$.001 par value
(Title of class)

Indicate by check mark whether the Registrant (1)
has filed all reports required to be filed by Section
13 or 15(d) of the Securities Exchange Act of 1934
during the preceding 12 months (or for such shorter
period that the Registrant was required to file such
reports), and (2) has been subject to such filing
requirements for the past 90 days. Yes No

Indicate by check mark if disclosure of delinquent
filers pursuant to Item 405 of Regulation S-K is not
contained herein, and will not be contained, to the
best of Registrant's knowledge, in definitive proxy or
information statements incorporated by reference in
Part III of this Form 10-K or any amendment to this
Form 10-K.

The aggregate market value of the voting stock
held by nonaffiliates of the Registrant, as of July 1,
2000, was approximately \$314,659,898. As of such date,
there were 17,464,505 of the Registrant's shares of
common stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Part III is incorporated by reference from the
Proxy Statement for the Annual Meeting of Stockholders
to be held on August 29, 2000.

Item 1. Business

Unless the context requires otherwise, all references to "School Specialty," "we" or "our" refer to School Specialty, Inc. and its subsidiaries. Our fiscal year ends on the last Saturday in April in each year. In this Annual Report on Form 10-K ("Annual Report"), we refer to fiscal years by reference to the calendar year in which they end (e.g. the fiscal year ended April 29, 2000 is referred to as "fiscal 2000"). Note that fiscal 2000 had 53 weeks, while all other fiscal years reported and referenced represent 52 weeks.

Overview

School Specialty is the largest marketer of non-textbook educational supplies and furniture to schools for pre-kindergarten through twelfth grade. We offer more than 72,000 items through an innovative two-pronged marketing approach that targets both school administrators and individual teachers. Our broad product range enables us to provide our customers with one source for virtually all of their non-textbook school supplies and furniture needs.

We have grown significantly in recent years through internal growth and acquisitions. For the fiscal year ended April 29, 2000, our revenues were \$639.3 million and our operating income was \$48.6 million, a 38% increase over fiscal 1999.

Our "top down" marketing approach targets school administrators at the state, regional and local levels using our network of over 300 sales representatives and our School Specialty general supply and furniture catalogs. Our "bottom up" approach seeks to reach individual teachers and curriculum specialists primarily through the mailing of our ClassroomDirect.com general supply catalog and our seven different specialty catalogs. In January 2000, we mailed over 13 million catalogs to more than three million teachers and curriculum specialists.

We also use the Internet to market and sell our products, building on the proven two-pronged marketing approach. "ClassroomDirect.com" is a fully integrated e-commerce website targeted to teachers and offering over 13,000 items for sale. "JuneBox.com" offers one-stop shopping for all of School Specialty's products on-line and also provides a community forum and content aimed at educators. In the summer of 2000, JuneBox.com will be open to unrelated vendors creating a purchasing portal for schools.

School Specialty was incorporated as a wholly owned subsidiary by U.S. Office Products in Delaware in February 1998 to hold its Educational Supplies and Products Division. The predecessor to this business was incorporated in 1959 and acquired by U.S. Office Products in 1996. In June, 1998, U.S. Office Products distributed to its shareholders all of the Common Stock of School Specialty in a "spin-off" transaction. At the same time as this spin-off, School Specialty sold 2,375,000 shares of Common Stock in an initial public offering and a concurrent offering to several of its officers and directors. On April 16, 1999, School Specialty sold 2,400,000 shares of Common Stock in a secondary public offering, and sold an additional 151,410 shares on May 17, 1999 to cover over-allotments. Our Common Stock is listed on the Nasdaq National Market under the symbol "SCHS." Our principal offices are located at 1000 North Bluemound Drive,

Appleton, Wisconsin 54914, and our telephone number is (920) 734-2756. Our world wide general website address is www.schoolspecialty.com. Information contained in any of our websites is not deemed to be a part of this Annual Report.

Industry Overview

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

According to the U.S. Department of Education, there are approximately 16,000 school districts, 110,000 public and private elementary and secondary schools and 3.1 million teachers in the United States. School supply procurement decisions are made at the school district level by administrators and curriculum specialists, at the school building level by principals and at the classroom level by teachers. Some school supplies are purchased directly from manufacturers while others are purchased through marketing firms such as us. We estimate that there are over 3,400 marketers of non-textbook school supplies and equipment, the majority of which are family or employee owned businesses that operate in a single geographic region and have annual revenues under \$20 million. We believe that the increasing demand for single source suppliers, prompt order fulfillment and competitive prices, and the related need for suppliers to invest in automated inventory and electronic ordering systems, is accelerating the trend toward consolidation in our industry.

The demand for school supplies is driven primarily by the level of the student population and, to a lesser extent, expenditures per student. Student population is a function of demographics, while expenditures per student are also affected by government budgets and the prevailing political and social attitudes towards education. According to U.S. Department of Education estimates, student enrollment in kindergarten through twelfth grade public and private schools began growing in 1986, reaching a record level of nearly 53 million students in 1998. Current projections by the U.S. Department of Education indicate that student enrollment will continue to grow to nearly 55 million within three years. The U.S. Department of Education also projects that expenditures per student in public elementary and secondary schools will continue to rise. Expenditures of \$272 billion in 1997 are projected to increase to \$341 billion by the year 2001. These projected increases in expenditures include a projected increase in total per student spending from \$5,961 per student in 1997 to \$7,179 by the year 2001. We believe that the current political and social environment is favorable for education spending.

Recent Acquisitions

Audio Graphic Systems. In May, 1999, we acquired Audio Graphic Systems (Audio Graphics). Audio Graphics is a business that specializes in the sale of audio-visual equipment to schools. We paid \$2.4 million for Audio Graphics, of which \$1.2 million was paid in cash

and \$1.2 million in shares of Common Stock (an aggregate of 57,151 shares were issued). The cash portion of the purchase price was financed through borrowings under our credit facility. During calendar 1999, Audio Graphics had revenues of approximately \$13 million.

Internet Initiative

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

In January 1999, we launched the first phase of our Internet initiative with the opening of our fully integrated e-commerce website ClassroomDirect.com. The site offers access to over 13,000 stock keeping units with digital pictures of most items. Although currently teacher focused, the site could be adapted to a more consumer based format. In February 2000, we signed an agreement with America Online, Inc. (AOL) for placement in the Shop@AOL on-line shopping destination with the goal to increase visibility with both teachers and consumers. The increasing demand by school administrators and teachers for more information in making supply decisions, the lack of a wide variety of educational products in stores and the growing importance of convenience make the Internet a viable, low cost channel for the marketing of education supplies.

The second phase of our Internet initiative, launched in August 1999, JuneBox.com, offers an education portal on the Internet. This portal is structured as an education mall offering our products for sale and also provides a community forum and content aimed at educators. We believe that by providing education related content and information, this portal will place us at the education community's decision point for supply and content which will strengthen our brands. In March 2000 we signed an agreement with Ariba, Inc., one of the world's leading providers of business-to-business e-commerce solutions, to power JuneBox.com and facilitate the e-commerce marketplace for the procurement of school materials. This site will eventually be expanded to include additional vendors offering one-stop on-line shopping for all products purchased by schools and will also provide a community forum educators can visit to find teaching tips, lesson plan help, product reviews and updates on current events affecting the education market.

Strengths

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

Leading Market Position. We have developed our leading market position by emphasizing high quality products, superior order fulfillment and exceptional customer service. We believe that our large size and brand recognition have resulted in significant buying power, economies of scale and customer loyalty.

Broad Product Line. Our strategy is to provide a

full range of high quality products to meet the complete supply needs of schools for pre-kindergarten through twelfth grade. With over 72,000 stock keeping units ranging from classroom supplies and furniture to playground equipment, we provide customers with one source for virtually all of their non-textbook school supply and furniture needs. Our specialty brands enrich our general product offering and create opportunities to cross merchandise our specialty products to our traditional customers. Specialty brands include the following:

Brand	Products
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Childcraft	Early childhood
Sax Arts and Crafts	Art supplies
Frey Scientific	Science
Sportime	Physical education
Brodhead Garrett	Industrial arts
Gresswell	Library
Hammond & Stephens	School forms
SmartStuff	Software

Innovative Two-Pronged Marketing Approach. School supply procurement decisions are made at the district and school levels by administrators, and at the classroom level by curriculum specialists and teachers. We market to both of these groups, addressing administrative decision makers with a "top

down" approach through our 300 person sales force and the School Specialty general supply and furniture catalogs, and targeting teachers and curriculum specialists with a "bottom up" approach primarily through the mailing of ClassroomDirect.com general supply catalogs and our seven different specialty catalogs to over three million teachers each year. We utilize our customer database across our family of catalogs to maximize their effectiveness and increase our marketing reach.

Internet Offering. Our primary e-commerce sites, JuneBox.com for administrative purchase decisions and ClassroomDirect.com for teacher-based decisions, establish an early yet comprehensive presence on the Internet which, we believe, will be a significant competitive advantage.

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

Ability to Complete and Integrate Acquisitions. We have successfully completed over 20 acquisitions of companies since May 1996. We have established a 12-month integration process in which a transition team is assigned to:

- * sell or discontinue incompatible business units,
- * reduce the number of stock keeping units,
- * eliminate redundant expenses,
- * integrate the acquired entity's management information systems, and
- * exploit buying power.

To date, our integration efforts have focused on acquired traditional companies and certain administrative and warehousing functions at our

specialty divisions. We believe that through these processes, we can rapidly improve the operating margins of the businesses we acquire.

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

Experienced and Incentivised Management. Our management team provides depth and continuity of experience. In addition, management's interests are aligned with those of our stockholders, as many members of management own shares of our Common Stock and/or have been granted options to purchase such Common Stock.

Growth Strategy

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

Increase Revenues of Specialty and Proprietary Products. We believe we can increase our margins by selling more specialty products and products for which we are the only supplier. Specialty products accounted for approximately 40% of our revenues in fiscal 2000, compared to approximately 35% in fiscal 1999.

Expand Existing Traditional Business. We believe that we can also increase the revenues of our traditional business by adding sales representatives in geographic markets in which we are

underrepresented and by cross merchandising our specialty products to our traditional customers. During the September to December 1999 recruiting season, we added approximately 25 sales representatives to select geographic locations to improve market penetration.

Leverage the Internet Channel. Because more schools and teachers are connecting to the Internet, we are aggressively pursuing sales opportunities through this rapidly growing channel. By establishing an early presence on the Internet, we believe we can gain a significant competitive advantage and valuable brand recognition. Our goal is to become the leading marketer of school supplies and furniture over the Internet. This may also permit us to expand our customer base over time to include individuals and other non-traditional customers. We believe this strategy can be effective both as an offensive tool, enhancing revenue at a low incremental cost, and as a defensive one, by preventing other existing and prospective Internet competitors from establishing themselves in this market. The establishment of early brand recognition will facilitate the establishment of our educational portal as the key education related website.

Pursue Acquisitions. We believe that there are many attractive acquisition opportunities in our highly fragmented industry. As a public company, we have greater access to capital for acquisitions than many of our competitors. We will continue to pursue opportunities that complement our specialty product offerings.

Improve Profitability. We improved our operating

margin (as measured by our operating income before non-recurring acquisition and restructuring costs divided by our revenues) from 3.2% in 1995 to 7.6% in fiscal 2000. We believe that we can further improve our operating margins in the traditional and specialty segments by eliminating redundant expenses of acquired businesses, leveraging our overhead costs, increasing our purchasing power and improving the efficiency of our warehousing and distribution.

Product Lines

We market two broad categories of products: general school supplies and specialty products geared towards specific educational disciplines. Our general school supply products are offered to school administrators by our sales force through our School Specialty catalog and to teachers and curriculum specialists through direct mailings of our ClassroomDirect.com catalog. Our specialty products are offered to teachers and curriculum specialists through direct mailings of our seven specialty catalogs. Our specialty products enrich our general supply product offering and create opportunities to cross merchandise our specialty products to our traditional customers. With over 72,000 stock keeping units ranging from classroom supplies and furniture to playground equipment, we provide customers with one source for virtually all of their non-textbook school supply and furniture needs.

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

School Specialty. Through the School Specialty catalog, which is targeted to administrative decision makers, we offer a comprehensive selection of classroom supplies, instructional materials, educational games, art supplies, school forms (such as reports, planners and academic calendars), educational software, physical education equipment, audio-visual equipment, school furniture and indoor and outdoor equipment. We believe we are the largest school furniture resale source in the United States. We have been granted exclusive franchises for certain furniture lines in specific territories and we enjoy significant purchasing power in open furniture lines. We enhance our furniture offering with a custom design and contract management service called Projects by Design. Projects by Design is a rapidly growing segment of our traditional business.

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

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

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

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

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

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

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

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

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

SmartStuff. SmartStuff is the developer of FoolProofr Internet, a comprehensive Internet security and web management solution for schools and FoolProofr security software, a desktop software security program which limits access by children to selected programs and applications on desktop computers.

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

Sales and Marketing

Our Two-Pronged Approach. We believe we have developed a substantially different sales and marketing model from that of traditional school supply and school furnishings marketing companies in the United States. Our strategy is to use two separate marketing approaches ("top down" and "bottom up") to reach all the prospective purchasers in the school system.

Traditional Business. Our national marketing model has over 300 sales representatives operating within 17 regions supported by regional managers and two regional customer service and sales support call centers. We believe our national structure provides

for effective sales management, resulting in higher regional penetration, and achieves significant cost savings through focused distribution and call centers.

We have a broad customer base and no single customer accounted for more than 2% of sales during fiscal 2000, 1999 and 1998. Schools typically purchase school supplies and furniture based on an established relationship with relatively few suppliers. We establish and maintain our relationship with our traditional customers by assigning accounts within a specific geographic territory to a local area sales representative who is supported by a centrally located customer service team. Our customer service representatives call on existing traditional customers frequently to ascertain and fulfill their school supply needs. The representatives maintain contact with these customers throughout the order cycle and assist in processing orders.

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

Specialty Business. We generally use direct mail catalogs to reach our broader customer base. We distribute seven major specialty catalogs, one for each of our Childcraft, Sax Arts and Crafts, Frey Scientific, Sportime, Brodhead Garrett, Gresswell and Hammond & Stephens lines. For each product line, a major catalog containing all product offerings is distributed toward the end of the calendar year so that it is available for school buyers at the beginning of the year. During the year, various catalog supplements are distributed to coincide with the peak school buying season in June through September and following the start of school in the fall. Our SmartStuff brand uses a combination of marketing brochures, outside field sales and telemarketing to reach its customer base.

Internet Business. We offer two e-commerce sites, JuneBox.com and ClassroomDirect.com to facilitate on-line purchases and shorten the order cycle for administrators and teachers. Both traditional and specialty products are available on these sites.

Pricing. Pricing for our general and specialty product offerings varies by product and market channel. We generally offer a negotiated discount from catalog prices for supplies from our School Specialty catalog and respond to quote and bid requests. The pricing structure of specialty products offered through direct marketing is generally not subject to negotiation.

Distribution

We aggregate and distribute products through seven primary distribution centers (DCs). Each DC has specific primary and back-up geographic responsibility and carries all traditional stock items. The distribution system is designed to minimize split shipments and freight charges as well as manage seasonal peaks.

Purchasing and Inventory Management

We manage our inventory by continually reviewing daily inventory levels compared to a running 90-day inventory for the previous year, adjusted for incoming orders. We constantly refine the focus of inventory products through our automated inventory management

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

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

We believe that the primary determinants of customer satisfaction in the educational supply industry are the completeness and accuracy of shipments received and the timeliness of delivery. We continue to invest in sophisticated computer systems to automate the order taking, inventory allocation and management, and order shipment processes. As a result, we have been able to provide superior order fulfillment to our customers. In addition, we have developed an order management system, JuneBox Off-Line, which allows schools to customize their orders and enter them electronically and provides historical usage reports to schools useful for their budgeting process. While this system currently only accounts for approximately 6% of our traditional supply sales, we believe it will become more significant as schools upgrade their technology and use of computers. During the academic year, we seek to fill orders within 24 hours of receipt of the order at a 95% fill rate and a 99.5% order accuracy rate. During the summer months, we shift to a production environment and schedule shipments to coincide with the start of the school year. During the summer months our objectives are to meet a 100% fill rate at a 99.5% order accuracy rate. Our average order fill rate for June, July and August 1999 exceeded 98%. We define "fill rate" as the percentage of line items in a customer's order that are initially shipped to the customer in response to the order by the requested ship date.

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

Information Systems

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

and marketing campaigns.

We use two principal information systems. In the traditional and certain specialty businesses, we use a specialized distribution software package used primarily by office products and paper marketers. This software package is referred to as the Software for Distributors System (the "SFD system"). This software offers a fully integrated process from sales order entry through customer invoicing, and

inventory requirements planning through accounts payable. Our system provides information through daily automatic posting to the general ledger and integrated inventory control. We have made numerous enhancements to this process that allow greater flexibility in addressing the seasonal requirements of the industry and meeting specific customer needs.

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

Our software and hardware allow for continued incremental growth as well as the opportunity to integrate new client-server and other technologies into the information systems.

Competition

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

Employees

As of July 1, 2000, we had approximately 2,400 full-time employees. To meet the seasonal demands of our customers, we employ many seasonal employees during the late spring and summer seasons. Historically, we have been able to meet our requirements for seasonal employment. As of July 1, 2000, approximately 35 full-time employees were members of the Teamsters Labor Union at our Sax Arts and Crafts' New Berlin, Wisconsin facility. We consider our relations with our employees to be very good.

Forward-Looking Statements

Statements in this Annual Report which are not strictly historical are "forward-looking" statements. 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 following information contains or may contain forward-looking statements: (1) information included or incorporated by reference in this Annual Report, including, without limitation, statements made under Item 1, Business and Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations, including, without limitation, statements with respect to growth plans and projected revenues, operating profits, earnings and costs; (2) information included or incorporated by reference in our future filings with the Securities and Exchange Commission including, without limitation, statements with respect to growth plans and projected revenues, operating profits, earnings and costs; and (3) information contained in written material, releases and oral statements issued by, or on behalf of, School Specialty including, without limitation, statements with respect to growth plans and projected revenues, operating profits, earnings and costs. Our actual results may differ materially from those contained in the forward-looking

statements identified above. Factors which may cause such a difference to occur include, but are not limited to, the following:

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

In addition, we and the other three spin-off companies each agreed with U.S. Office Products to pay a portion of the securities law and general liabilities of U.S. Office Products arising prior to the distributions and, if any of the spin-off companies fails to pay its portion, to pay a portion of the unpaid amount. The maximum aggregate amount we can be required to pay for all shared liabilities is limited by the agreement to \$1.75 million (including as a result of defaults by the other spin-off companies). U.S. Office Products has been named as a defendant in various class action lawsuits relating to the distributions that allege, among other things, violations of the federal securities laws.

Material Amount of Goodwill. Approximately \$192.7 million, or 42%, of our total assets as of April 29, 2000 represents intangible assets, the significant majority of which is goodwill. Goodwill is the amount by which the costs of an acquisition accounted for

using the purchase method exceeds the fair value of the net assets we acquire. We are required to record goodwill as an intangible asset on our balance sheet and to amortize it over a period of years. We generally amortize goodwill for each acquisition on a straight line method over a period of 40 years. Even though it reduces our net income for accounting purposes, amortization of goodwill may not be deductible for tax purposes. In addition, we are required to periodically evaluate whether we can recover our remaining goodwill from the undiscounted future cash flows that we expect to receive from the operations of the acquired companies. If these undiscounted future cash flows are less than the carrying value of the associated goodwill, the goodwill is impaired and we must reduce the carrying value of the goodwill to equal the discounted future cash flows and take the amount of the reduction as a charge against our income. Reductions in our net income caused by the amortization or write down of goodwill could materially adversely affect our results of operations.

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

Seasonality of Our Business. Our educational supply businesses are highly seasonal. Because most of our customers want their school supplies delivered before or shortly after the commencement of

the school year, we make most of our sales from May to October. As a result, we usually earn more than 100% of our annual net income in the first six months of our fiscal year and operate at a loss in our third and fourth fiscal quarters. This seasonality causes our operating results to vary considerably from quarter to quarter.

Dependence on Key Suppliers and Service Providers. We depend upon a limited number of suppliers for some of our products, especially furniture. We also depend upon a limited number of service providers for the delivery of our products. If these suppliers or service providers are unable to provide the products or services that we require or materially increase their costs (especially during our peak season of June through September), this could impair our ability to deliver our products on a timely and profitable basis and could have a material adverse effect on our business, financial condition and results of operations. As we seek to reduce the number of our suppliers and to minimize duplicative lines as part of our business strategy, we are likely to increase our dependence on remaining vendors.

Reliance on Key Personnel. Our business depends to a large extent on the abilities and continued efforts of current executive officers and senior management, including Daniel P. Spalding, our Chief Executive Officer. We are also likely to depend heavily on the executive officers and senior management of businesses that we acquire in the future. If any of

these people become unable or unwilling to continue in his or her present role, or if we are unable to attract and retain other qualified employees, our business could be adversely affected. Although we have employment contracts with most executive officers, we do not have employment agreements with our senior management. We do not have and do not intend to obtain key man life insurance covering any of our executive officers or other members of senior management.

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

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

Several of our recently-acquired divisions and/or subsidiaries as well as Gresswell (our U.K. subsidiary) use predecessor information systems. With the exception of Gresswell, we intend to convert the information systems of these businesses to one of our host systems as soon as practicable. However, none of these businesses has a backup computer system or backup extra communication lines. Even though we have taken precautions to protect ourselves from events that could interrupt the operations of these businesses and intend to do so for other businesses we acquire in the future, we cannot be sure that a fire, flood or other natural disaster affecting their systems would not disable the system or prevent the system from communicating with our other businesses. The occurrence of any of these events could have a material adverse effect on our results of operations and financial condition.

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

Leverage. As of April 29, 2000, we had \$161.9 million of bank debt outstanding. In addition, our leverage could increase over time. Our credit facility permits us to incur additional debt under certain circumstances and we expect to borrow under our credit

facility for general corporate purposes, including working capital and for acquisitions.

Our ability to meet our debt service obligations depends on our future performance. Our future performance is influenced by general economic conditions and by financial, business and other factors affecting our operations, many of which are beyond our control. If we are unable to service our debt, we may have to delay our acquisition program, sell our equity securities, sell our assets, or restructure and refinance our debt.

We cannot give our stockholders any assurance that, if we are unable to service our debt, it is likely to have a material adverse effect on the company.

Item 2. Properties

Our corporate headquarters are located in an owned facility at 1000 North Bluemound Drive, Appleton, Wisconsin, a combined office and warehouse facility of approximately 120,000 square feet. We lease or own the following principal facilities:

Locations	Approximate Square Footage	Owned/ Leased	Lease Expiration
Agawam, Massachusetts	163,300	Owned	-
Atlanta, Georgia	77,000	Leased	January 6, 2002
Birmingham, Alabama	180,365	Leased	November 30, 2006
Bowling Green, Kentucky	42,000	Leased	June 30, 2001
Fremont, Nebraska	95,000	Leased	June 30, 2003
Fresno, California	163,200	Leased	November 1, 2009
Hoddesdon, England	47,500	Leased	September 24, 2006
Lancaster, Pennsylvania	73,000	Leased	December 31, 2002
Lancaster, Pennsylvania	204,000	Leased	February 28, 2009
Lufkin, Texas	140,000	Owned	-
Mansfield, Ohio	323,000	Owned	-
New Berlin, Wisconsin	97,500	Leased	March 31, 2002
Salina, Kansas	123,000	Owned	-

The 73,000 square foot Lancaster, Pennsylvania facility is used for manufacturing and the Fremont, Nebraska facility is used for production of school forms.

We believe that our properties, as enhanced for our ongoing expansion, are adequate to support our operations for the foreseeable future. We regularly review the utilization and consolidation of our facilities.

Item 3. Legal Proceedings

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

Item 4. Submission of Matters to a Vote of Security Holders

There were no matters submitted during the quarter ended April 29, 2000 to a vote of our security holders.

EXECUTIVE OFFICERS OF THE REGISTRANT

As of July 10, 2000, the record date of our 2000 Annual Meeting of Stockholders, the following persons

served as executive officers of School Specialty:

Name and Age
of Officer

Daniel P. Spalding Age 45	Mr. Spalding became Chairman of the Board and Chief Executive Officer of School Specialty in February 1998. From 1996 to February 1998, Mr. Spalding served as President of the Educational Supplies and Products Division of U.S. Office Products. From 1988 to 1996, he served as President, Chief Executive Officer and a director of School Specialty's predecessor. Prior to 1988, Mr. Spalding was an officer of JanSport, a manufacturer of sports apparel and backpacking equipment. Mr. Spalding was a co-founder of JanSport and served as President and Chief Executive Officer from 1977 to 1984. Mr. Spalding has been a director of the National School Supply and Equipment Association since 1992 and completed his term as the association's Chairman in November 1997.
David J. Vander Zanden Age 45	Mr. Vander Zanden became the President and Chief Operating Officer of School Specialty in March 1998. From 1992 to March 1998, he served as President of Ariens Company, a manufacturer of outdoor lawn and garden equipment. Mr. Vander Zanden has served as a director of School Specialty since completion of the spin-off from U.S. Office Products in June 1998.
Mary M. Kabacinski Age 51	Ms. Kabacinski, a Certified Public Accountant, has served as Executive Vice President and Chief Financial Officer since August 1999. From 1989 to 1999, she served as Executive Vice President and Chief Financial Officer for Marquette Medical Systems, a manufacturer of medical devices.
Donald J. Noskowiak Age 42	Mr. Noskowiak has served as Vice President Finance/Business Development since August 1999. Mr. Noskowiak has been with School Specialty since 1992, and served as Chief Financial Officer from 1997 to August 1999.
Melvin D. Hilbrow Age 52	Mr. Hilbrow has served as Executive Vice President of School Specialty and Managing Director for Gresswell since completion of the spin-off from U.S. Office Products in June 1998. Mr. Hilbrow joined School Specialty as Managing Director of Gresswell with School Specialty's acquisition of Don Gresswell, Ltd. in 1997. He had been Managing Director of Gresswell since 1989.
Richard H. Nagel Age 59	Mr. Nagel has served as Executive Vice President of School Specialty for Sax Arts and Crafts since June 1998. Mr. Nagel joined School Specialty with the acquisition of Sax Arts and Crafts in 1997. Mr. Nagel has been with Sax Arts and Crafts since 1975.
Donald Ray Pate, Jr. Age 37	Mr. Pate has served as Executive Vice President of School Specialty for ClassroomDirect.com since June 1998. Mr. Pate joined School Specialty with the acquisition of Re-Print in 1996, having served as President of Re-Print since he acquired it in 1988.
Ronald E. Suchodolski Age 54	Mr. Suchodolski has served as Executive Vice President of School Specialty for Childcraft since 1998. Mr. Suchodolski joined School

Specialty with the acquisition of Childcraft in 1997. Mr. Suchodolski was Vice President of Childcraft in 1995 and 1996 and was Director of Childcraft's school division from 1984 to 1989. From 1989 to 1993, Mr. Suchodolski was President of the Judy/Instructo Division of Paramount, and from 1993 to 1995, Mr. Suchodolski served as Senior Vice President of Sales and Marketing for Paramount Publishing's Supplementary Materials Division.

Michael J. Killoren
Age 43

Mr. Killoren has served as Executive Vice President and Chief Information Officer of JuneBox.com, Inc., since June 2000. From 1999 through June 2000, Mr. Killoren served as Vice President and Chief Information Officer of School Specialty. Mr. Killoren was Chief Operating Officer of School Specialty Distribution from 1997 to 1999 and Vice President Operations from 1992 to 1997. Mr. Killoren joined School Specialty in 1980.

Brian E. Chapin
Age 48

Mr. Chapin has served as Executive Vice President of School Specialty for SmartStuff since School Specialty acquired SmartStuff in March 1999. Mr. Chapin served as President of SmartStuff since he founded it in 1993.

Peter S. Savitz
Age 51

Mr. Savitz has served as Executive Vice President of School Specialty for Sportime since School Specialty acquired Sportime in February 1999. Mr. Savitz has been with Sportime since 1972.

Garett H.D. Reid
Age 60

Mr. Reid has served as Executive Vice President of School Specialty for Frey Scientific since School Specialty acquired National School Supply Company (Beckley-Cardy) in August 1998. Mr. Reid served as Vice President of Marketing and Sales in Science & Media with the Beckley-Cardy Group since 1989.

Joseph F. Franzoi IV
Age 45

Mr. Franzoi has served as Corporate Counsel since June 1998 and became a part-time employee of JuneBox.com, Inc., in June 2000. Mr. Franzoi has practiced corporate law with Franzoi and Franzoi, S.C., from 1980 to the present, concentrating in the area of mergers and acquisitions.

Daniel P. Spalding and Michael J. Killoren are cousins.

The term of office of each executive officer is from one annual meeting of the Board of Directors until the next annual meeting of the Board of Directors or until a successor for each is selected.

There are no arrangements or understandings between any of our executive officers and any other person (not an officer or director of School Specialty acting as such) pursuant to which any of our executive officers were selected as an officer of School Specialty.

PART II

Item 5. Market for Registrant's Common Equity and Related Stockholder Matters

Market Information

Our Common Stock has traded under the symbol "SCHS" on the Nasdaq National Market since June 10,

from) income taxes	33,635	17,615	10,719	5,720	(4,536)	(3,194)
Provision for (benefit from) income taxes (3)	15,120	8,719	5,480	(2,412)	139	173
	-----	-----	-----	-----	-----	-----
Net income (loss)	\$ 18,515	\$ 8,896	\$ 5,239	\$ 8,132	\$ (4,675)	\$ (3,367)
	=====	=====	=====	=====	=====	=====
Net income (loss) per share:						
Basic	\$ 1.06	\$ 0.61	\$ 0.40	\$ 0.81	\$ (0.54)	\$ (0.51)
Diluted	\$ 1.06	\$ 0.60	\$ 0.39	\$ 0.80	\$ (0.53)	\$ (0.50)
Weighted average shares outstanding:						
Basic	17,429	14,690	13,284	10,003	8,611	6,562
Diluted	17,480	14,840	13,547	10,196	8,789	6,669

	April 29, 2000	April 24, 1999	April 25, 1998	April 26, 1997	April 30, 1996	December 31, 1995
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Balance Sheet Data:						
Working capital (deficit)	\$117,018	\$115,853	\$ 47,791	\$ 14,491	\$ (3,663)	\$ (1,052)
Total assets	454,849	437,708	223,729	87,685	54,573	54,040
Long-term debt	144,789	161,691	63,014	33,792	15,031	15,294
Total debt	162,180	173,285	83,302	60,746	40,918	39,783
Stockholders' equity (deficit)	224,993	202,687	106,466	16,329	(4,267)	(620)

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

(2) Certain amounts previously reported have been reclassified to conform with the fiscal 2000 presentation. These reclassifications have no effect on net income or net income per share.

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

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

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

Overview

We are the largest marketer of non-textbook educational supplies and furniture to schools for pre-kindergarten through twelfth grade. We offer more than 72,000 items through an innovative two-pronged marketing approach that targets both school administrators and individual teachers. Our broad product range enables us to provide our customers with one source for virtually all of their non-textbook school supplies and furniture needs. We have grown significantly in recent years both through internal growth and acquisitions.

Revenues have increased from \$150.5 million in fiscal 1995 to \$639.3 million in fiscal 2000. This increase is driven primarily by internal growth and acquisitions. Our revenues for fiscal 2000 were \$639.3 million and our operating income before restructuring costs was \$48.6 million, which represented compound annual increases of 40% and 70%, respectively, compared to our historical results for fiscal 1995.

Our gross margin has improved in recent years primarily due to acquisitions and increased buying power. We have acquired many specialty businesses, which tend to have higher gross margins than our traditional business. In addition, our acquisitions of both specialty and traditional businesses have increased our buying power, resulting in reduced costs of the products we purchase.

Our operating margins have also improved significantly over the last several years. This improvement reflects our recent acquisitions of specialty companies which typically have higher operating margins than our traditional businesses. In addition, through the integration of acquired businesses, we have been able to further improve our operating margins by eliminating redundant expenses, leveraging overhead costs and improving purchasing power. While we have already achieved significant operating margin improvements from the acquisitions we have made to date, we believe there are still opportunities to eliminate redundant expenses.

Our effective tax rate is higher than the federal statutory tax rate of 35%, due primarily to non-deductible goodwill amortization and state taxes.

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

Results of Operations

The following table sets forth certain information as a percentage of revenues on a historical basis concerning our results of operations for fiscal 2000, fiscal 1999, and fiscal 1998.

	Fiscal Year Ended		April 24, 1998 (52 Weeks)
	April 29, 2000 (53 Weeks)	April 24, 1999 (52 Weeks)	
Revenues	100.0%	100.0%	100.0%
Cost of revenues	63.5	65.5	65.3
Gross profit	36.5	34.5	34.7
Selling, general and administrative expenses	28.9	27.7	28.3
Restructuring and strategic restructuring acquisition costs	-	1.0	1.1
Operating income	7.6	5.8	5.3
Interest expense, net	2.1	2.4	1.8
Other expense	0.2	-	0.1
Income before provision for income taxes	5.3	3.4	3.4
Provision for income taxes	2.4	1.7	1.8
Net income	2.9%	1.7%	1.6%

Consolidated Historical Results of Operations

Year Ended April 29, 2000 (53 weeks) Compared to Year Ended April 24, 1999 (52 weeks)

Revenues

Revenues increased 22.5% from \$521.7 million for fiscal 1999 to \$639.3 million for fiscal 2000. This increase is 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 29.6% from \$179.9 million, or 34.5% of revenues, in fiscal 1999 to \$233.2 million, or 36.5% of revenues, in fiscal 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 the 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 more favorable product mix and contributions from Sportime, which was acquired in February of fiscal 1999, and has higher gross margins than most of our other businesses. These increases were slightly offset by contributions from the Internet business, which as a group has lower gross margins than our other businesses.

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, general administrative overhead (which includes information systems, accounting, legal, and human resources) and depreciation and amortization expense.

Selling, general and administrative expenses increased 27.6% from \$144.7 million, or 27.7% of revenues, in fiscal 1999 to \$184.6 million, or 28.9% of revenues, in fiscal 2000. The increase in selling, general and administrative expense is primarily due to an increase in revenue. The increase in selling, general and administrative expense as a percent of revenue is primarily due to (1) a shift in revenue mix to the 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 six acquisitions we have completed since the beginning of fiscal 1999, and (3) expenses related to expanding the Internet business, which are incremental in fiscal 2000. 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 fiscal 1999, we recorded a strategic restructuring charge of \$1.1 million in the first quarter and \$4.2 million in the second quarter, for a total of \$5.3 million during fiscal 1999. The \$1.1 million charge related to a one-time, non-cash charge for compensation expense attributed to U.S. Office Product's stock option tender offer and the sale of shares of Common Stock to some of our executive management personnel. The \$4.2 million charge was 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 \$0.6 million from \$12.6 million, or 2.4% of revenues, in fiscal 1999, to \$13.2 million, or 2.1% of revenues in fiscal 2000. The increase in net 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 from our secondary offering in April 1999. Other expenses of \$1.9 million for fiscal 2000 primarily represents the loss on the disposal of a facility donated to a municipality and a non-cash impairment charge on a minority investment.

Provision for Income Taxes

Provision for income taxes for fiscal 2000 increased 73.4% or \$6.4 million over fiscal 1999, reflecting income tax rates of 45.0% and 49.5% in fiscal 2000 and fiscal 1999, respectively. The decrease in the effective tax rate is primarily due to a decline in the effective state tax rate and a reduction in the amount of non-deductible goodwill amortization. The higher effective tax rate, as compared to the federal statutory rate of 35.0%, is primarily due to state income taxes and non-deductible goodwill amortization.

Fiscal Year Ended April 24, 1999 Compared to Fiscal Year Ended April 25, 1998

Revenues

Consolidated revenues increased 68.0%, from \$310.5

million for fiscal 1998 to \$521.7 million for fiscal 1999. This increase was due primarily to the inclusion of revenues of thirteen businesses acquired since the beginning of fiscal 1998 and internal growth on existing businesses.

Gross Profit

Gross profit increased 67.2%, from \$107.6 million in fiscal 1998 to \$179.9 million in fiscal 1999 primarily due to the acquisitions referred to above. Gross profit as a percent of revenues declined slightly from 34.7% in fiscal 1998 to 34.5% in fiscal 1999. This decline was due primarily to a reduction in traditional business gross margin, driven by the acquisition of Beckley-Cardy, which had lower gross margins than our existing traditional business and an increase in lower margin bid revenues. These reductions were offset by an increase in specialty business revenue, which typically has higher gross margins than the traditional business.

Selling, General and Administrative Expense

Selling, general and administrative expenses increased 64.7%, from \$87.8 million in fiscal 1998 to \$144.7 million in fiscal 1999, due primarily to the acquisitions referred to above. As a percentage of revenues, these expenses declined 0.6% from 28.3% for fiscal 1998 to 27.7% for fiscal 1999. The decrease in selling, general and administrative expenses as a percentage of revenues was the result of cost savings attributable to the integration of companies acquired during fiscal 1998 and the consolidation of our warehousing, sales and customer service operations under the restructuring of the traditional business which began in the second quarter of fiscal 1999. These decreases were offset by increases attributable to the acquisition of Beckley-Cardy in the second quarter of fiscal 1999 (which had higher selling, general and administrative expenses as a percentage of revenues than our existing businesses) and higher depreciation and amortization expenses due to the thirteen companies acquired since the beginning of fiscal 1998.

Restructuring Costs

During fiscal 1999, we recorded a strategic restructuring charge of \$1.1 million in the first quarter and \$4.2 million in the second quarter, for a total of \$5.3 million during fiscal 1999. The \$1.1 million charge related to a one-time, non-cash charge for compensation expense attributed to U.S. Office Product's stock option tender offer and the sale of shares of Common Stock to some of our executive management personnel, net of underwriting discounts. The \$4.2 million charge was 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

Net interest expense increased 134.5%, from \$5.4 million, or 1.8% of revenues, for fiscal 1998 to \$12.6 million, or 2.4% of revenues, for fiscal 1999. The increase in net interest expense is primarily attributed to the debt assumed and cash paid for the thirteen companies acquired since the beginning of fiscal 1998, offset by debt repaid from the proceeds from our secondary public offering in April 1999, our

initial public offering in June 1998, and the forgiveness of debt from U.S. Office Products in connection with the spin-off.

Provision for Income Taxes

Provision for income taxes increased 59.1% from \$5.5 million for fiscal 1998 to \$8.7 million for fiscal 1999, reflecting effective income tax rates of 49.5% and 51.1% for fiscal 1999 and fiscal 1998, respectively. The higher effective tax rate, compared to the federal statutory rate of 35%, is primarily due to state income taxes and non-deductible goodwill amortization.

Liquidity and Capital Resources

At April 29, 2000, we had working capital of \$117.0 million. Our capitalization at April 29, 2000 was \$386.9 million and consisted of bank debt of \$161.9 million and stockholders' equity of \$225.0 million.

We currently have a five year secured \$350 million revolving credit facility with Bank of America, N.A. The 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 April 29, 2000 under the credit facility was approximately \$161.9 million, consisting of \$75.6 million outstanding under the revolving loan portion of the facility and \$86.3 million outstanding under the term loan portion of the facility. Borrowings under the 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 credit facility. The agreement fixes the 30 day LIBOR interest rate at 4.37% per annum (floating LIBOR on April 29, 2000 was 6.18%) on the \$50 million notional amount and has a three year term that may be canceled by the Bank of New York on the second anniversary. As of April 29, 2000, the effective interest rate on borrowings under our credit facility was approximately 8.3% excluding the effect of the swap agreement and 7.8% including the effect of the swap agreement. In fiscal 2000, we borrowed under the credit facility primarily for seasonal working capital and capital expenditures. During fiscal 2000, we made certain immaterial changes to certain financial and other covenants under our credit facility.

On April 16, 1999, we sold 2,400,000 shares of Common Stock in a public offering for \$40.8 million in net proceeds. On May 17, 1999, we sold an additional 151,410 shares of Common Stock to cover over-allotments for \$2.2 million in net proceeds. The total proceeds were used to reduce indebtedness outstanding under our credit facility.

On June 9, 1998, we sold 2,125,000 shares of Common Stock in a public offering for \$30.6 million in net proceeds and we sold 250,000 shares of Common Stock in a concurrent offering directly to certain executive officers of School Specialty for aggregate consideration of \$3.6 million. In connection with the offerings, we incurred approximately \$1.5 million of expenses. The total net proceeds to us from the offerings were \$32.7 million. The net proceeds were used to reduce indebtedness outstanding under our credit facility.

During fiscal 2000, net cash provided by operating activities was \$31.1 million. This net cash provided by operating activities during the period is indicative of the high seasonal nature of the business, with sales occurring in the first and second quarter of the fiscal year and cash receipts in the second and third quarters. Net cash used in investing activities was \$27.3 million, including \$1.3 million for acquisitions, \$17.3 million for additions to property and equipment and \$8.7 million for other long term assets. Investments in other long term assets include \$3.0 million for a minority interest in A Better Way of Learning which is an e-commerce fulfillment partner of School Specialty, \$2.8 million for software licensing to power JuneBox.com, our purchasing portal for schools, \$1.7 million to purchase the net assets of a division of a furniture manufacturer and a compilation of other long term investments.

Net payments of \$9.4 million were made to reduce indebtedness under the credit facility, using \$2.2 million in proceeds from the issuance of Common Stock, as well as cash from operations and cash on hand.

During fiscal 1999, net cash provided by operating activities was \$27.6 million. Net cash used in investing activities was \$127.2 million, including \$122.3 million for acquisitions and \$4.9 million for additions to property and equipment and other. Net cash provided by financing activities was \$109.4 million. Borrowing under the credit facility included (1) \$0.8 million used to fund the cash portion of the purchase price of the Holsinger acquisition, (2) \$3.7 million used to fund the purchase price of the SmartStuff acquisition, (3) \$23 million used to fund the purchase price of the Sportime acquisition, (4) \$16.5 million used to fund the cash portion of the purchase price of the Hammond & Stephens acquisition, (5) \$134.7 million used to fund the Beckley-Cardy acquisition consisting of \$78.1 million for the purchase price and \$56.6 million for debt repayment, (6) \$83.3 million used to repay the U.S. Office Products debt in connection with the spin-off and (7) \$67.8 million used for short-term funding of seasonal working capital and the purchase of property and equipment. The \$32.7 million net proceeds from our initial public offering and concurrent offering to certain officers and directors and \$40.6 million of the net proceeds from our public offering in April 1999 were used to repay a portion of the funds borrowed under the credit facility. U.S. Office Products contributed capital of \$7.2 million as required under the distribution agreement entered into with us in connection with the spin-off.

During fiscal 1998, net cash provided by operating activities was \$3.7 million. Net cash used in investing activities was \$99.7 million, including \$95.7 million for acquisitions and \$4.0 million for additions to property and equipment and other. Net cash provided by financing activities was \$96.0 million, including \$95.7 million provided by U.S. Office Products to fund the cash portion of the purchase price and the repayment of debt assumed with the acquisition of the Fiscal 1998 Purchased Companies, \$81.3 million of which was considered a contribution of capital by U.S. Office Products, partially offset by \$8.4 million used to repay indebtedness.

Our anticipated capital expenditures for the next twelve months are expected to be \$13 million. The largest items include software development for our Internet initiative, computer hardware and software and

warehouse equipment.

We anticipate that our cash flow from operations and borrowings available from our existing credit facility will be sufficient to meet our liquidity requirements for operations, including capital expenditures, and our debt service obligations.

Fluctuations in Quarterly Results of Operations

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

Quarterly results also may be materially affected by the timing of acquisitions, the timing and magnitude of costs related to such acquisitions, variations in our costs for the products sold, the mix of products sold and general economic conditions. Moreover, the operating margins of companies we acquire may differ substantially from our own, which could contribute to further fluctuation in quarterly operating results. Therefore, results for any quarter are not indicative of the results that we may achieve for any subsequent fiscal quarter or for a full fiscal year.

The following table sets forth certain unaudited consolidated quarterly financial data for fiscal 2000 (53 weeks) and fiscal 1999 (52 weeks). We derived this data from unaudited consolidated financial statements.

Year Ended April 29, 2000					
	First	Second	Third	Fourth	Total
	(13 weeks)	(13 weeks)	(13 weeks)	(14 weeks)	(53 weeks)
Revenues	\$194,299	\$231,588	\$ 97,244	\$116,140	\$639,271
Gross profit	72,879	82,913	33,429	44,007	233,228
Operating income (loss)	24,564	26,701	(2,245)	(378)	48,642
Net income (loss)	11,364	12,184	(3,032)	(2,001)	18,515
Per share amounts:					
Basic	\$ 0.65	\$ 0.70	\$ (0.17)	\$ (0.11)	\$ 1.06
Diluted	\$ 0.65	\$ 0.70	\$ (0.17)	\$ (0.11)	\$ 1.06
Year Ended April 24, 1999					
	First	Second	Third	Fourth	Total
	(13 weeks)	(13 weeks)	(13 weeks)	(13 weeks)	(52 weeks)
Revenues	\$126,657	\$212,316	\$ 85,359	\$ 97,372	\$521,704
Gross profit	44,042	70,761	28,093	37,025	179,921
Operating income (loss)	13,326	18,674	(2,383)	371	29,988
Net income (loss)	6,563	7,430	(3,298)	(1,799)	8,896
Per share amounts:					
Basic	\$.45	\$.51	\$ (.23)	\$ (.12)	\$.61
Diluted	\$.44	\$.51	\$ (.23)	\$ (.12)	\$.60

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.

Recent Accounting Pronouncements

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.

The SEC issued Staff Accounting Bulletin No. 101, "Revenue Recognition" ("SAB No. 101"), in December 1999, which provides guidance on the recognition, presentation, and disclosure of revenue in financial statements. On June 26, 2000, the SEC issued SAB No. 101B, which delayed implementation of SAB No. 101. The Company will implement SAB No. 101 in the fourth quarter of fiscal year 2001 as required by SAB No. 101B. The company is reviewing the requirements of SAB No. 101 and has not yet determined the impact of this standard on its consolidated financial statements. It is not expected, however, that SAB No. 101 will have a material effect on the Company's financial position or results of operations.

Year 2000

The Year 2000 issue exists because many computer systems and applications, including those embedded in equipment and facilities, use two digit rather than four digit date fields to designate an applicable year. As a result, the systems and applications may not properly recognize the Year 2000 or process data which include it, potentially causing data miscalculations or inaccuracies or operational malfunctions or failures.

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 our operations, we will continue to monitor our systems, as well as those of our third party suppliers, to ensure Year 2000 compliance.

Item 7A. Quantitative and Qualitative Disclosure About Market Risk

Our financial instruments include cash and cash equivalents, accounts receivable, accounts payable, equity securities and long-term debt. Market risks relating to our operations result primarily from changes in interest rates. Our borrowings are primarily dependent upon LIBOR rates. The estimated fair value of long-term debt approximates its carrying value at April 29, 2000.

We do not hold or issue derivative financial instruments for trading purposes. To manage interest rate risk on the variable rate borrowings under the revolving portion of our credit facility, we entered into an interest rate swap agreement during fiscal 1999. See "Management's Discussion and Analysis of Financial Condition and Results of Operations -

Liquidity and Capital Resources." This interest rate swap agreement has the effect of locking in, for a specified period, the base interest rate we will pay on the \$50 million notional principal amount established in the swap. As a result, while this hedging arrangement is structured to reduce our exposure to interest rate increases, it also limits the benefit we might otherwise have received from any interest rate decreases. This swap is usually cash settled monthly, with interest expense adjusted for amounts paid or received. Effects of this swap have been minor for the year ending April 29, 2000.

Item 8. Financial Statements and Supplementary Data

REPORT OF INDEPENDENT ACCOUNTANTS

To the Board of Directors
of School Specialty, Inc.

In our opinion, the consolidated financial statements listed in the index appearing under Item 14(a)(1) on page 52 present fairly, in all material respects, the financial position of School Specialty, Inc. and its subsidiaries at April 29, 2000, and April 24, 1999, and the results of their operations and their cash flows for each of the three years in the period ended April 29, 2000, in conformity with accounting principles generally accepted in the United States. In addition, in our opinion, the financial statement schedule listed in the accompanying index appearing under Item 14(a)(2) on page 52 presents fairly, in all material respects, the information set forth therein when read in conjunction with the related consolidated financial statements. These financial statements and the financial statement schedule are the responsibility of the Company's management; our responsibility is to express an opinion on these financial statements and the financial statement schedule based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States, which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for the opinion expressed above.

/s/ PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP

Minneapolis, Minnesota
June 9, 2000

FINANCIAL STATEMENTS

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

	April 29, 2000	April 24, 1999
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 4,151	\$ 9,779
Accounts receivable, less allowance for doubtful accounts of \$1,744 and \$2,234, respectively	76,028	74,781
Inventories	86,117	78,783
Prepaid expenses and other current assets	28,664	17,332
Deferred taxes	6,964	8,371
	-----	-----
Total current assets	201,924	189,046
Property and equipment, net	51,725	42,305
Intangible assets, net	192,744	198,710
Deferred taxes	1,861	3,810
Other	6,595	3,837
	-----	-----
Total assets	\$454,849	\$437,708
	=====	=====

LIABILITIES AND STOCKHOLDERS' EQUITY

Current liabilities:		
Current maturities - long-term debt	\$ 17,391	\$ 11,594
Accounts payable	48,874	37,050
Accrued compensation	8,634	8,410
Accrued restructuring	65	2,752
Other accrued liabilities	9,942	13,387
	-----	-----
Total current liabilities	84,906	73,193
Long-term debt	144,789	161,691
Other	161	137
	-----	-----
Total liabilities	229,856	235,021

Commitments and contingencies

Stockholders' equity:

Preferred stock, \$0.001 par value per share, 1,000,000 shares authorized; none outstanding	-	-
Common Stock, \$0.001 par value per share, 150,000,000 shares authorized and 17,464,505 and 17,229,197 shares issued and outstanding	17	17
Capital paid-in excess of par value	196,012	192,196
Accumulated other comprehensive loss	(30)	(5)
Retained earnings	28,994	10,479
	-----	-----

Total stockholders' equity

224,993

202,687

Total liabilities and stockholders' equity

\$454,849

\$437,708

=====

=====

See accompanying notes to consolidated financial statements.

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

For the Fiscal Year Ended

	April 29, 2000 ---- (53 weeks)	April 24, 1999 ---- (52 weeks)	April 25, 1998 ---- (52 weeks)
Revenues	\$639,271	\$521,704	\$310,455
Cost of revenues	406,043	341,783	202,870
	-----	-----	-----

stock in connection with oddlot tender offer	(27)	-	(505)	-	-	-	(505)	
Cumulative translation adjustment	-	-	-	-	(25)	-	(25)	(25)
Net income	-	-	-	-	-	18,515	18,515	18,515

Total comprehensive income								\$18,490
Balance at April 29, 2000	17,465	\$ 17	\$196,012	-	\$ (30)	\$28,994	\$224,993	=====

See accompanying notes to consolidated financial statements.

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

	For the Fiscal Year Ended		
	April 29, 2000 ----- (53 weeks)	April 24, 1999 ----- (52 weeks)	April 25, 1998 ----- (52 weeks)
Cash flows from operating activities:			
Net income	\$ 18,515	\$ 8,896	\$ 5,239
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization expense	11,839	9,604	4,561
Deferred taxes	5,746	468	-
Loss on disposal/impairment of fixed assets and other	2,096	-	-
Amortization of loan fees and other	671	762	78
Restructuring costs	-	5,274	2,491
Changes in current assets and liabilities (net of assets acquired and liabilities assumed in business combinations accounted for under the purchase method):			
Accounts receivable	844	13,583	(3,586)
Inventory	(6,137)	1,374	(6,666)
Prepaid expenses and other current assets	(6,441)	(2,822)	(717)
Accounts payable	9,943	(12,591)	5,256
Accrued liabilities	(6,006)	3,075	(2,932)
	-----	-----	-----
Net cash provided by operating activities	31,070	27,623	3,724
	-----	-----	-----
Cash flows from investing activities:			
Cash paid in acquisitions, net of cash acquired	(1,291)	(122,337)	(95,670)
Additions to property and equipment	(17,351)	(4,872)	(3,558)
Investment in long term assets	(8,704)	(27)	(514)
	-----	-----	-----
Net cash used in investing activities	(27,346)	(127,236)	(99,742)
	-----	-----	-----
Cash flows from financing activities:			
Repayment of bank debt and capital leases	(198,192)	(261,422)	(8,372)
Proceeds from bank borrowings	186,200	355,700	-
Proceeds from issuance of common stock	2,225	73,556	-
Repurchase of common stock	(505)	-	-
Proceeds from exercise of stock options	920	-	-
Advances from (payments to) U.S. Office Products	-	(62,699)	23,058
Capital contribution by U.S. Office Products	-	7,217	81,332
Capitalized loan fees	-	(2,960)	-
	-----	-----	-----
Net cash provided (used in)			

by financing activities	(9,352)	109,392	96,018
Net increase (decrease) in cash and cash equivalents	(5,628)	9,779	-
Cash and cash equivalents at beginning of period	9,779	-	-
Cash and cash equivalents at end of period	\$ 4,151	\$ 9,779	\$ -
Supplemental disclosures of cash flow information:			
Interest paid	\$ 13,215	\$ 11,151	\$ 35
Income taxes paid	\$ 13,255	\$ 5,123	\$ 1,148

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

The Company issued common stock and cash in connection with certain business combinations accounted for under the purchase method in the fiscal years ended April 29, 2000, April 24, 1999, and April 25, 1998. The fair values of the assets and liabilities of the acquired companies are presented as follows:

	For the Fiscal Year Ended		
	April 29, 2000 ---- (53 weeks)	April 24, 1999 ---- (52 weeks)	April 25, 1998 ---- (52 weeks)
Accounts receivable	\$ 2,091	\$ 49,645	\$ 17,900
Inventories	1,434	30,850	18,180
Prepaid expenses and other current assets	65	11,142	2,431
Property and equipment	178	21,033	6,379
Intangible assets	2,214	103,455	80,359
Other assets	13	3,775	346
Short-term debt	-	(832)	(1,850)
Accounts payable	(1,881)	(25,853)	(9,400)
Accrued liabilities	(759)	(7,564)	(9,089)
Long-term debt	(885)	(57,599)	(6,020)
Other liabilities	-	(228)	-
Net assets acquired	\$ 2,470	\$127,824	\$ 99,236
The acquisitions were funded as follows:			
Common stock	\$ 1,178	\$ 5,487	\$ -
U.S. Office Products common stock	-	-	3,566
Cash paid, net of cash acquired	1,292	122,337	95,670
Total	\$ 2,470	\$127,824	\$ 99,236

See accompanying notes to consolidated financial statements.

NOTE 1-BACKGROUND

School Specialty, Inc. (the "Company") is a Delaware corporation which was a wholly-owned subsidiary of U.S. Office Products Company ("U.S. Office Products") until June 9, 1998. On June 9, 1998, U.S. Office Products spun-off its Educational Supplies and Products Division (the "Education Division") as an independent publicly owned company. This transaction

was effected through the distribution of shares of the Company to U.S. Office Products' shareholders (the "Distribution"). Prior to the Distribution, U.S. Office Products contributed its equity interests in certain wholly-owned subsidiaries associated with the Education Division to the Company. U.S. Office Products and the Company entered into a number of agreements to facilitate the Distribution and the transition of the Company to an independent business enterprise. Additionally, concurrently with the Distribution, the Company sold 2,125 shares in an initial public offering (the "IPO"). Following the IPO, management purchased 250 shares.

NOTE 2-BASIS OF PRESENTATION

The accompanying consolidated financial statements and related notes to consolidated financial statements include the accounts of School Specialty, Inc. and the companies acquired in business combinations accounted for under the purchase method from their respective dates of acquisition and give retroactive effect to the results of the pooled companies for all periods presented. For the periods prior to the Distribution, the consolidated financial statements reflect the assets, liabilities, divisional equity, revenues and expenses that were directly related to the Company as it was operated within U.S. Office Products. In cases involving assets and liabilities not specifically identifiable to any particular business of U.S. Office Products, only those assets and liabilities that were transferred to the Company were included in the Company's separate consolidated balance sheet. The Company's consolidated statement of income includes all of the related costs of doing business, including an allocation of certain general corporate expenses of U.S. Office Products which were not directly related to these businesses including certain corporate executives' salaries, accounting and legal fees, departmental costs for accounting, finance, legal, purchasing, marketing, and human resources as well as other general overhead costs. These allocations were based on a variety of factors, dependent upon the nature of the costs being allocated, including revenues, number and size of acquisitions and number of employees. Management believes these allocations were made on a reasonable basis.

The consolidated statement of income does not include an allocation of interest expense on all debt allocated to the Company. See Note 9 for further discussion of interest expense.

NOTE 3-SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Use of Estimates

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

Definition of Fiscal Year

As used in these consolidated financial statements and related notes to consolidated financial statements, "fiscal 2000", "fiscal 1999" and "fiscal 1998" refer to the Company's fiscal years ended April 29, 2000 (53

weeks), April 24, 1999 (52 weeks), and April 25, 1998 (52 weeks), respectively.

Principles of Consolidation

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

Cash and Cash Equivalents

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

Concentration of Credit Risk

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

Inventories

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

Property and Equipment

Property and equipment is stated at cost. Additions and improvements are capitalized. Maintenance and repairs are expensed as incurred. Depreciation of property and equipment is calculated using the straight-line method over the estimated useful lives of the respective assets. The estimated useful lives range from twenty-five to forty years for buildings and its components and three to fifteen years for furniture, fixtures and equipment. Property and equipment leased under capital leases is being amortized over the lesser of its useful life or its lease terms.

Intangible Assets

Intangible assets consist primarily of goodwill, which represents the excess of cost over the fair value of net assets acquired in business combinations accounted for under the purchase method and non-compete agreements. Substantially all goodwill is amortized on a straight line basis over an estimated useful life of forty years, except for goodwill associated with a software subsidiary which is being amortized over fifteen years. Identifiable intangible assets include trademarks, capitalized technology, and franchise agreements which are being amortized over their estimated useful lives ranging from one to forty years.

Management periodically evaluates the recoverability of goodwill, which would be adjusted for a permanent decline in value, if any, by comparing anticipated undiscounted future cash flows from operations to net book value. If the operation is determined to be unable to recover the carrying amount of its assets, then intangible

assets are written down first, followed by the other long-lived assets of the operation, to fair value. Fair value is determined based on discounted cash flows or appraised

values, depending upon the nature of the assets. Based upon its most recent assessment, the Company does not believe an impairment of long-lived assets exists at April 29, 2000.

Cost Investment

The Company uses the cost method to account for its investment in a less than 20%-held entity. Under this method, the Company's investment is stated at cost and is periodically evaluated to determine if a write down of the investment is needed in order to properly state the investment at the lower of cost or market. In connection with this evaluation, the Company took a \$1,500 charge during the fourth quarter of fiscal 2000.

Fair Value of Financial Instruments

The carrying amounts of the Company's financial instruments including cash and cash equivalents, accounts receivable, accounts payable, equity securities and long-term debt approximate fair value.

Income Taxes

Income taxes, during the period subsequent to the Distribution, have been computed utilizing the asset and liability approach which requires the recognition of deferred tax assets and liabilities for the tax consequences of temporary differences by applying enacted statutory tax rates applicable to future years to differences between the financial statement carrying amounts and the tax basis of existing assets and liabilities.

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

Revenue Recognition

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

Cost of Revenues

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

Advertising Costs

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

Deferred Catalog Costs

Deferred catalog costs are amortized in amounts proportionate to revenues over the life of the catalog, which is typically one to two years. Amortization expense related to deferred catalog costs is included in the consolidated statement of income as a component of selling, general and administrative expenses. Such amortization expense for the year ended April 29, 2000, April 24, 1999, and April 25, 1998 was \$16,076, \$12,146, and \$6,934, respectively.

Research and Development Costs

Research and development costs are charged to operations in the year incurred. Research and development costs are included in the consolidated statement of income as a component of selling, general and administrative expenses.

Internally Developed Software

During fiscal 1999 the Company adopted the American Institute of Certified Public Accountants ("AICPA") Statement of Position 98-1, "Accounting for the Costs of Computer Software Developed or Obtained for Internal Use" ("SOP 98-1"). SOP 98-1 requires computer software costs associated with internal use software to be expensed as incurred until certain capitalization criteria are met.

Restructuring Costs

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

New Accounting Pronouncements

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.

The SEC issued Staff Accounting Bulletin No. 101, "Revenue Recognition" ("SAB No. 101"), in December 1999, which provides guidance on the recognition, presentation, and disclosure of revenue in financial statements. On June 26, 2000, the SEC issued SAB No. 101B which delayed implementation of SAB No. 101. The Company will implement SAB No. 101 in the fourth quarter of fiscal year 2001 as required by SAB No. 101B. The Company is reviewing the requirements of SAB No. 101 and

has not yet determined the impact of this standard on its consolidated financial statements. It is not expected, however, that SAB No. 101 will have a material effect on the Company's financial position or results of operations.

Distribution Ratio

On June 9, 1998, the Company issued approximately 12,204 shares of its common stock to U.S. Office Products, which then distributed such shares to its shareholders in the ratio of one share of Company common stock for every nine shares of U.S. Office Products common stock held by each shareholder. The share data reflected in the accompanying financial statements for the periods prior to the Distribution represents the historical share data for U.S. Office Products for the period or as of the date indicated, retroactively adjusted to give effect to the one for nine distribution ratio.

Reclassifications

Certain prior period amounts have been reclassified to conform to the current year presentation.

NOTE 4-BUSINESS COMBINATIONS

In fiscal 2000, the Company acquired 100% of a company, which was accounted for under the purchase method of accounting, for an aggregate purchase price of \$2,353, consisting of \$1,175 of cash and 57 shares of common stock with a market value of \$1,178, resulting in goodwill of \$1,934, which will be amortized over 40 years. During fiscal 2000, the Company also purchased certain assets which represented a portion of another existing business for \$117. This transaction resulted in goodwill of \$280. The results of these acquisitions have been included in the Company's results from their dates of acquisition. The pro-forma results of the later transaction are not included in the table below due to immateriality.

In fiscal 1999, the Company made five acquisitions accounted for under the purchase method of accounting for an aggregate purchase price of \$127,824, consisting of \$122,337 of cash and 250 shares of common stock with a market value of \$5,487. The total assets related to these five acquisitions were \$219,900, including goodwill of \$103,455. The results of these acquisitions have been included in the Company's results from their respective dates of acquisition.

In fiscal 1998, the Company made eight acquisitions accounted for under the purchase method of accounting for an aggregate purchase price of \$99,236, consisting of \$95,670 of cash and U.S. Office Products common stock with a market value of \$3,566. The total assets related to these eight acquisitions were \$125,595, including goodwill of \$80,359. The results of these acquisitions have been included in the Company's results from their respective dates of acquisition.

The following presents the unaudited pro forma results of operations of the Company for the fiscal years ended April 29, 2000, and April 24, 1999, and includes the Company's historical consolidated results of operations and the results of the companies acquired in fiscal 2000 and fiscal 1999 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 and the inclusion of a federal income tax provision on all earnings:

	For the Fiscal Year Ended	
	April 29, 2000 ----- (53 weeks)	April 24, 1999 ----- (52 weeks)
Revenues	\$639,271	\$632,380
Net income	18,236	9,347
Net income per share:		
Basic	\$ 1.05	\$ 0.62
Diluted	\$ 1.05	\$ 0.62

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 which may occur in the future.

NOTE 5-RESTRUCTURING COSTS

During the fourth quarter of fiscal 1998, the Company incurred restructuring costs of \$2,491 to close redundant facilities and severance costs. This restructuring plan was completed by the end of fiscal 1999. The Company also incurred a strategic restructuring charge during the fourth quarter of fiscal 1998 of \$1,000. This represented the transaction costs allocated to the Company under the distribution agreement entered into with U.S. Office Products and the other spin-off companies.

During the first quarter of fiscal 1999, the Company incurred a strategic restructuring charge of \$1,074. 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. During the second quarter of fiscal 1999, the Company incurred restructuring costs of \$4,200 to consolidate existing warehousing, customer service and sales operations. During the fiscal years ended April 29, 2000, and April 24, 1999, the Company terminated 43 and 152 employees, respectively, under this plan.

Selected information related to the restructuring reserve for closing redundant facilities and consolidating existing warehousing, customer service and sales operations follows:

	Facility Closure and Consolidation	Severance and Terminations	Other Asset Write-downs and Costs	Total
	-----	-----	-----	-----
Balance at April 26, 1997	\$ -	\$ -	\$ 151	\$ 151
Additions	728	214	1,549	2,491
Utilizations	(728)	-	(1,442)	(2,170)
	-----	-----	-----	-----
Balance at April 25, 1998	-	214	258	472
Additions	1,300	2,100	800	4,200
Utilizations	(199)	(1,029)	(692)	(1,920)
	-----	-----	-----	-----
Balance at April 24, 1999	\$1,101	\$1,285	\$ 366	\$2,752
Additions	-	-	-	-
Utilizations	(1,084)	(1,245)	(358)	(2,687)
	-----	-----	-----	-----

Balance at April 29, 2000	\$ 17	\$ 40	\$ 8	\$ 65
	=====	=====	=====	=====

NOTE 6-PREPAID EXPENSES AND OTHER CURRENT ASSETS

Prepaid expenses and other current assets consist of the following:

	April 29, 2000	April 24, 1999
Deferred catalog costs	\$ 14,742	\$ 13,203
Assets held for sale	4,333	-
Other	9,589	4,129
Total prepaid expenses and other current assets	----- \$ 28,664 =====	----- \$ 17,332 =====

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

NOTE 7-PROPERTY AND EQUIPMENT

Property and equipment consists of the following:

	April 29, 2000	April 24, 1999
Land	\$ 2,540	\$ 1,921
Projects in progress	2,954	1,607
Buildings and leasehold improvements	26,635	28,392
Furniture, fixtures, and other	17,848	12,283
Machinery and warehouse equipment	14,660	10,053
	----- 64,637	----- 54,256
Less: Accumulated depreciation	(12,912)	(11,951)
Net property and equipment	----- \$ 51,725 =====	----- \$ 42,305 =====

Depreciation expense for the fiscal years ended April 29, 2000 (53 weeks), April 24, 1999 (52 weeks), and April 25, 1998 (52 weeks) was \$5,523, \$4,948, and \$2,500, respectively.

NOTE 8-INTANGIBLE ASSETS

Intangible assets consist of the following:

	April 29, 2000	April 24, 1999
Goodwill	\$194,350	\$195,060
Other	13,148	13,037
	----- 207,498	----- 208,097
Less: Accumulated amortization	(14,754)	(9,387)
Net intangible assets	----- \$192,744 =====	----- \$198,710 =====

Amortization expense for the fiscal years ended April 29, 2000 (53 weeks), April 24, 1999 (52 weeks), and April 25, 1998 (52 weeks) was \$6,316, \$4,656, and \$2,061, respectively.

NOTE 9-CREDIT FACILITIES

Long-Term Debt

Long-term debt consists of the following:

	April 29, 2000	April 24, 1999
	----	----
Credit facility	\$161,850	\$172,500
Capital lease obligations	182	785
Other debt	148	-
	-----	-----
	162,180	173,285
Less: Current maturities	(17,391)	(11,594)
	-----	-----
Total long-term debt	\$144,789	\$161,691
	=====	=====

On September 30, 1998, the Company entered into a five year secured \$350,000 credit facility (the "credit facility") with a syndicate of financial institutions, led by Bank of America, N.A. as Agent, consisting of a \$250,000 revolving loan and a \$100,000 term loan. Interest on borrowings under the credit facility accrued through the third quarter of fiscal 1999 at a rate of, at the Company's option, either (i) LIBOR plus 2.375% or (ii) the lender's base rate plus a margin of 0.75%, plus a fee of 0.475% on the unborrowed amount under the revolving term loan. Subsequent to the third quarter of fiscal 1999, interest accrues at a rate of, at the Company's option, either (i) LIBOR plus an applicable margin of up to 2.000%, or (ii) the lender's base rate plus an applicable margin of up to 0.750%, plus a fee of up to 0.475% on the unborrowed amount under the revolving loan. The credit facility is secured by substantially all of the assets of the Company and contains terms and covenants typical of facilities of such size. The Company was in compliance with these covenants at April 29, 2000. At April 29, 2000, the balance outstanding under the credit facility was \$161,850, including \$75,600 and \$86,250 outstanding under the revolving and term loans, respectively, and included seven eurodollar contracts, expiring within 89 days, totaling \$151,250 at an average interest rate of 7.47%. The effective interest rate under the credit facility for fiscal 2000 was 7.89%, which includes the loan origination fee and commitment fee on unborrowed funds, and excludes the effect of the interest rate swap agreement disclosed below.

To manage interest rate risk, the Company entered into an interest rate swap agreement on October 28, 1998, with the Bank of New York covering \$50,000 of the outstanding borrowings under the credit facility. The agreement fixes the 30 day LIBOR interest rate at 4.37% per annum on the \$50,000 notional amount and has a three year term that may be canceled by the Bank of New York on the second anniversary. The floating LIBOR interest rate at April 29, 2000, was 6.18% and 4.91% at April 29, 2000, and April 24, 1999, respectively. The fair market value of the swap agreement was \$566 at April 29, 2000.

Maturities of Long-Term Debt

Maturities on long-term debt, including capital lease obligations, are as follows:

2001	\$ 17,391
2002	18,208
2003	29,082
2004	97,405
2005	16
Thereafter	78

Total maturities of long-term debt	\$162,180
	=====

The credit facility contains certain restrictive covenants, including limitations on the ability of the Company to pay dividends or redeem stock well as limitations on incurring debt, capital expenditures, mergers or consolidations, sale of assets and transactions with affiliates.

Payable to U.S. Office Products

On June 9, 1998, per the distribution agreement, the Company borrowed \$83,300 from its line of credit to repay the remaining amounts due to U.S. Office Products. The average outstanding long-term payable to U.S. Office Products during the fiscal year ended April 24, 1999, was \$6,871.

Interest was allocated to the Company by U.S. Office Products based upon the Company's average outstanding payable (short-term and long-term) balance with U.S. Office Products at U.S. Office Products' weighted average interest rate during such period. The Company's financial statements include allocations of interest expense from U.S. Office Products totaling \$158 and \$5,414 during the fiscal years ended April 24, 1999, and April 25, 1998, respectively.

NOTE 10-INCOME TAXES

The provision for income taxes consists of:

	For the Fiscal Year Ended		
	April 29, 2000 (53 weeks)	April 24, 1999 (52 weeks)	April 25, 1998 (52 weeks)
Income taxes currently payable:			
Federal	\$ 7,371	\$ 6,511	\$ 3,646
State	2,003	1,740	907
	-----	-----	-----
	9,374	8,251	4,553
Deferred income tax expense	5,746	468	927
	-----	-----	-----
Total provision for income taxes	\$15,120	\$ 8,719	\$ 5,480
	=====	=====	=====

Deferred taxes are comprised of the following:

	April 29, 2000	April 24, 1999
Current deferred tax assets:		
Inventory	\$ 3,001	\$ 4,008
Allowance for doubtful accounts	716	858
Net operating loss carryforward	1,493	1,574
Accrued liabilities	620	820
Accrued restructuring	26	1,111
Charitable contribution carryforward	1,108	-
	-----	-----
Total current deferred tax assets	6,964	8,371
	-----	-----
Long-term deferred tax assets (liabilities):		
Net operating loss carryforward	4,097	4,694
Property and equipment	(1,200)	(476)
Intangible assets	(1,636)	(408)
Unrealized loss on investment	600	-
	-----	-----
Total long-term deferred tax assets (liabilities)	1,861	3,810
	-----	-----
Net deferred tax assets	\$ 8,825	\$12,181
	=====	=====

The Company has net operating loss carryforwards of approximately \$14,710, on a consolidated basis, which expire during fiscal years 2011-2013. The

carryforwards are also subject to an annual limitation on utilization pursuant to IRS Code Section 382 of approximately \$3,900.

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

	For the Fiscal Year Ended		
	April 29, 2000 ----- (53 weeks)	April 24, 1999 ----- (52 weeks)	April 25, 1998 ----- (52 weeks)
U.S. federal statutory rate	35.0%	35.0%	34.0%
State income taxes, net of federal income tax benefit	4.6	5.2	6.6
Non-deductible goodwill	5.4	6.5	6.0
Non-deductible acquisition costs	-	-	3.3
Other	-	2.8	1.2
	-----	-----	-----
Effective income tax rate	45.0%	49.5%	51.1%
	=====	=====	=====

NOTE 11-OPERATING LEASE COMMITMENTS

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

2001	\$ 4,483
2002	4,236
2003	3,358
2004	2,217
2005	1,754
Thereafter	1,670

Total minimum lease payments	\$17,718
	=====

Rent expense for the fiscal years ended April 29, 2000 (53 weeks), April 24, 1999 (52 weeks), and April 25, 1998 (52 weeks), was \$5,535, \$4,498, and \$3,389, respectively.

NOTE 12-COMMITMENTS AND CONTINGENCIES

Litigation

Under the terms of the agreement entered into between the Company and U.S. Office Products in connection with a strategic restructuring plan, the Company is obligated, subject to a maximum obligation of \$1.75 million, to indemnify U.S. Office Products for certain liabilities incurred by U.S. Office Products prior to the Distribution, including liabilities under federal securities laws (the "Indemnification Obligation"). This Indemnification Obligation is reduced by any insurance proceeds actually recovered with respect to the Indemnification Obligation and is shared on a pro rata basis with the other three divisions of U.S. Office Products which were spun-off from U.S. Office Products in connection with the U.S. Office Products comprehensive restructuring.

U.S. Office Products has been named a defendant in various class action lawsuits. These lawsuits generally allege violations of federal securities laws

by U.S. Office Products and other named defendants during the months preceding the Strategic Restructuring Plan. The Company has not received any notice or claim from U.S. Office Products alleging that these lawsuits are within the scope of the Indemnification Obligation, but the Company believes that certain liabilities and costs associated with these lawsuits (up to a maximum of \$1.75 million) are likely to be subject to the Company's Indemnification Obligation. Nevertheless, the Company does not presently anticipate that the Indemnification Obligation will have a material adverse effect on the Company. Thus, due to the preliminary nature of this action, it is not possible at this time to assess the outcome of the claims. In accordance with SFAS No. 5, "Accounting for Contingencies", no provision has been recorded in the accompanying financial statements.

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

Postemployment Benefits

The Company has entered into employment agreements with several employees that would result in payments to these employees upon a change of control or certain other events. No amounts have been accrued at April 29, 2000, April 24, 1999 or April 25, 1998 related to these agreements, as no change of control has occurred.

Distribution

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

NOTE 13-EMPLOYEE BENEFIT PLANS

On June 9, 1998, the Company implemented the School Specialty, Inc. 401(k) Plan (the "Company 401(k)

Plan") which allows employee contributions in accordance with Section 401(k) of the Internal Revenue Code. The Company matches a portion of employee contributions and all full-time employees are eligible to participate in the Company 401(k) Plan after 90 days of service. In fiscal 2000 and fiscal 1999 the Company's matching contribution expense was \$564 and \$416, respectively. Prior to June 9, 1998 the Company participated in the U.S. Office Products 401(k) Retirement Plan (the "401(k) Plan"), which was similar to the plan adopted by the Company.

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

NOTE 14-STOCKHOLDERS' EQUITY

Earnings Per Share

Basic EPS excludes dilution and is computed by dividing income available to common shareholders by the weighted average number of common shares outstanding for the period. Diluted EPS reflects the potential dilution that could occur if securities or other contracts to issue common stock were exercised or converted into

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

	Income (Numerator)	Shares (Denominator)	Per Share Amount
	-----	-----	-----
Fiscal 2000 (53 weeks):			
Basic EPS	\$18,515	17,429	\$ 1.06
Effect of dilutive employee stock options	-	51	=====
	-----	-----	
Diluted EPS	\$18,515	17,480	\$ 1.06
	=====	=====	=====
Fiscal 1999 (52 weeks):			
Basic EPS	\$ 8,896	14,690	\$ 0.61
Effect of dilutive employee stock options	-	150	=====
	-----	-----	
Diluted EPS	\$ 8,896	14,840	\$ 0.60
	=====	=====	=====
Fiscal 1998 (52 weeks):			
Basic EPS	\$ 5,239	13,284	\$ 0.40
Effect of dilutive employee stock options	-	263	=====
	-----	-----	
Diluted EPS	\$ 5,239	13,547	\$ 0.39
	=====	=====	=====

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.

Capital Contribution by U.S. Office Products

During fiscal 1999 and fiscal 1998, U.S. Office Products contributed \$7,217 and \$81,332, respectively, of capital to the Company. The contribution reflects the forgiveness of intercompany debt by U.S. Office Products, as it was agreed that the Company would be allocated only \$80,000 of debt plus the amount of any

additional debt incurred after January 12, 1998, in connection with the acquisition of entities that became subsidiaries of the Company. The total debt allocated to the Company at the time of the Distribution was \$83,300.

Stock Offerings

On June 9, 1998, the Company issued 2,125 shares in conjunction with its IPO. In an offering concurrent with the IPO, management acquired 250 shares. The total net proceeds to the Company from the offerings was \$32,736.

On April 16, 1999, the Company issued 2,400 shares in conjunction with a secondary public offering receiving net proceeds of \$40,820. On May 17, 1999, the underwriters of the Company's secondary offering exercised their over allotment option for 151 shares of Company stock at \$17.25 per share for net proceeds of \$2,225.

Employee Stock Plans

On June 10, 1998, the Board of Directors approved the School Specialty, Inc. 1998 Stock Incentive Plan (the "Plan"). The purpose of the Plan is to provide officers, key employees and consultants with additional incentives by increasing their ownership interests in the Company. The maximum number of options available for grant under the Plan, is equal to 20% of the Company's outstanding common stock. The

maximum number of options available for grant in any fiscal year under the Plan is 1,200 shares. Prior to the approval of the Plan, the Company had stock options outstanding under the U.S. Office Products 1994 Long-Term Compensation Plan. The Company replaced the options to purchase shares of common stock of U.S. Office Products held by employees with options issued under the Plan to purchase shares of common stock of the Company. In order to keep the option holders in the same economic position immediately before and after the Distribution, the number of U.S. Office Products options held by Company personnel was multiplied by 0.903 and the exercise price of those options was divided by 0.903 for purposes of the replacement options. The vesting provisions and option period of the original grants were not changed. All option data reflected below has been retroactively restated to reflect the effects of the Distribution.

The Company accounts for options issued in accordance with APB Opinion No. 25. Accordingly, because the exercise prices of the options equal the market price on the date of grant, no compensation expense has been recognized for the options granted. Had compensation cost for the Company's stock options been recognized based upon the fair value of the stock options on the grant date under the methodology prescribed by SFAS No. 123 "Accounting for Stock Based Compensation", the Company's net income and net income per share would have been impacted as indicated in the following table.

For the Fiscal Year Ended

	April 29, 2000 ----- (53 weeks)	April 24, 1999 ----- (52 weeks)	April 25, 1998 ----- (52 weeks)
Net income (loss):			
As reported	\$18,515	\$ 8,896	\$ 5,239
Pro forma	14,954	(1,737)	4,436
Net income (loss) per share:			
As reported:			
Basic	\$ 1.06	\$ 0.61	\$ 0.40
Diluted	\$ 1.06	\$ 0.60	\$ 0.39
Pro forma:			
Basic	\$ 0.86	\$ (0.12)	\$ 0.33
Diluted	\$ 0.86	\$ (0.12)	\$ 0.33

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

	For the Fiscal Year Ended		
	April 29, 2000 -----	April 25, 1999 -----	April 24, 1998 -----
Expected life of option	7 years	7 years	7 years
Risk free interest rate	6.49%	5.50%	6.35%
Expected volatility of stock	67.14%	59.00%	44.10%

The weighted-average fair value of options granted was \$11.45, \$10.23, and \$9.75 for fiscal 2000, 1999, and 1998, respectively.

A summary of option transactions follows:

	Options Outstanding		Options Exercisable	
	Options	Weighted-Average Exercise Price	Options	Weighted-Average Exercise Price
	-----	-----	-----	-----
Balance at April 26, 1997	211	\$26.93		
Granted	257	18.01		
Canceled	(26)	25.45		

Balance at April 25, 1998	442	21.83	46	\$27.14
Granted	2,031	15.86		
Exercised	(82)	20.62		
Canceled	(25)	26.49		

Balance at April 24, 1999	2,366	\$16.70	118	\$23.39
Granted	803	16.23		
Exercised	(55)	16.21		
Canceled	(50)	20.20		

Balance at April 29, 2000	3,064	\$16.53	1,973	\$16.20
	=====			

The following table summarizes information about stock options outstanding at April 29, 2000:

	Options Outstanding	Options Exercisable
	Weighted-Average	Weighted-Average
	-----	-----

Range of Exercise Prices	Options	Average Life	Exercise Price	Options	Exercise Price
\$12.00 - \$15.00	325	9.14	\$14.48	--	--
\$15.50 - \$15.50	1,748	8.11	15.50	1,724	\$15.50
\$15.63 - \$19.93	798	9.01	17.51	145	17.33
\$21.78 - \$29.43	193	7.13	25.26	104	26.34
	3,064	8.40	\$16.53	1,973	\$16.20

Options granted are generally exercisable beginning one year from the date of grant in cumulative yearly amounts of 25% of the shares under option and generally expire ten years from the date of grant. Options granted to directors and non-employee officers of the Company vest over a three year period, 20% after the first year, 50% (cumulative) after year two and 100% (cumulative) after the third year.

As of the date of Distribution, Jonathan J. Ledecy, a member of the Company's Board of Directors and formerly the Chairman and Chief Executive Officer of U.S. Office Products, received 914,079 shares under an option grant with an exercise price of \$15.50. This grant represented 7.5% of the outstanding Company stock as of the date of Distribution. The options were exercisable in full on June 10, 1999.

Immediately following the effective date of the registration statements filed in connection with the IPO and the Distribution, the Company's Board of Directors granted 850,083 options, covering 7% of the outstanding shares of the Company's common stock, to certain executive management personnel (excluding the 7.5% granted to Mr. Ledecy). The options granted were granted under the Plan and have a per share exercise of \$15.50 and were exercisable in full on June 10, 1999.

Total options available for grant under the Plan are equal to 20% of the outstanding shares of the Company's common stock.

NOTE 15-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 for 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 1998, 1999, and the first two quarters of fiscal 2000; therefore, results for this segment prior to the third and fourth quarters of fiscal 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 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 customer use with the Internet (i.e., filtering software for the Internet).

The following table presents segment information.

	For the Fiscal Year Ended		
	April 29, 2000 ---- (53 weeks)	April 24, 1999 ---- (52 weeks)	April 28, 1998 ---- (52 weeks)
Revenues:			
Traditional	\$386,715	\$339,031	\$201,770
Specialty	252,556	182,673	108,685
Internet	5,607	-	-
Inter-company revenue elimination	(5,607)	-	-
	-----	-----	-----
Total	\$639,271	\$521,704	\$310,455
	=====	=====	=====
Operating profit (loss) and income before taxes: (a)			
Traditional	\$ 34,653	\$ 21,222	\$ 10,348
Specialty	28,573	20,944	11,054
Internet	(3,261)	-	-
	-----	-----	-----
Total	59,965	42,166	21,402
General corporate expense	11,323	6,904	1,663
One-time charges	-	5,274	3,491
Interest expense and other	15,007	12,373	5,529
	-----	-----	-----
Income before taxes	\$ 33,635	\$ 17,615	\$ 10,719
	=====	=====	=====
Identifiable assets (at year end):			
Traditional	\$246,006	\$247,204	\$121,475
Specialty	174,603	164,320	98,252
Internet	10,039	-	-
	-----	-----	-----
Total	430,648	411,524	219,727
Corporate assets	24,201	26,184	4,002
	-----	-----	-----
Total	\$454,849	\$437,708	\$223,729
	=====	=====	=====
Depreciation and amortization:			
Traditional	\$ 6,129	\$ 6,043	\$ 2,433
Specialty	4,499	3,058	1,814
Internet	711	-	-
	-----	-----	-----
Total	11,339	9,101	4,247
Corporate	500	503	314
	-----	-----	-----
Total	\$ 11,839	\$ 9,604	\$ 4,561
	=====	=====	=====
Expenditures for property and equipment:			
Traditional	\$ 6,215	\$ 782	\$ 2,847
Specialty	5,284	2,326	447
Internet	3,280	-	-
	-----	-----	-----
Total	14,779	3,108	3,294
Corporate	2,572	1,764	264
	-----	-----	-----
Total	\$ 17,351	\$ 4,872	\$ 3,558

=====

(a) Operating profit is defined as operating income before nonrecurring acquisition and restructuring costs.

NOTE 16-QUARTERLY FINANCIAL DATA (UNAUDITED)

The following presents certain unaudited quarterly financial data for fiscal 2000 and fiscal 1999:

Fiscal Year Ended April 29, 2000					
	First (13 weeks)	Second (13 weeks)	Third (13 weeks)	Fourth (14 weeks)	Total (53 weeks)
Revenues	\$194,299	\$231,588	\$ 97,244	\$116,140	\$639,271
Gross profit	72,879	82,913	33,429	44,007	233,228
Operating income (loss)	24,564	26,701	(2,245)	(378)	48,642
Net income (loss)	11,364	12,184	(3,032)	(2,001)	18,515
Per share amounts:					
Basic	\$ 0.65	\$ 0.70	\$ (0.17)	\$ (0.11)	\$ 1.06
Diluted	\$ 0.65	\$ 0.70	\$ (0.17)	\$ (0.11)	\$ 1.06

Fiscal Year Ended April 24, 1999					
	First (13 weeks)	Second (13 weeks)	Third (13 weeks)	Fourth (13 weeks)	Total (52 weeks)
Revenues	\$126,657	\$212,316	\$ 85,359	\$ 97,372	\$521,704
Gross profit	44,042	70,761	28,093	37,025	179,921
Operating income (loss)	13,326	18,674	(2,383)	371	29,988
Net income (loss)	6,563	7,430	(3,298)	(1,799)	8,896
Per share amounts:					
Basic	\$ 0.45	\$ 0.51	\$ (0.23)	\$ (0.12)	\$ 0.61
Diluted	\$ 0.44	\$ 0.51	\$ (0.23)	\$ (0.12)	\$ 0.60

The summation of quarterly net income per share may not equate to the calculation for the full fiscal year as quarterly calculations are performed on a discrete basis.

NOTE 17-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 owned by three shareholders, two of whom are related to certain executive officers of the Company.

NOTE 18-SUBSEQUENT EVENTS

On June 30, 2000, the Company purchased the net assets of Global Video, Inc., for \$32,000 plus a \$3,000 targeted performance payment to be determined on or about the first anniversary of the transaction.

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

None.

Item 10. Directors and Executive Officers of the Registrant

- (a) Executive Officers. Reference is made to "Executive Officers of the Registrant" in Part I hereof.
- (b) Directors. The information required by this Item is set forth in our Proxy Statement for the Annual Meeting of Stockholders to be held on August 29, 2000, under the caption "Election of Directors," which information is incorporated by reference herein.
- (c) Section 16 Compliance. The information required by this Item is set forth in our Proxy Statement for the Annual Meeting of Stockholders to be held on August 29, 2000, under the caption "Section 16(a) Beneficial Ownership Reporting Compliance," which information is incorporated by reference herein.

Item 11. Executive Compensation

The information required by this Item is set forth in our Proxy Statement for the Annual Meeting of Stockholders to be held on August 29, 2000, under the captions "Executive Compensation," "Employment Contracts and Related Matters," "Director Compensation and Other Arrangements," "Compensation Committee Report," "Compensation Committee Interlocks and Insider Participation," and "Performance Graph," which information is incorporated by reference herein.

Item 12. Security Ownership of Certain Beneficial Owners and Management

The information required by this Item is set forth in our Proxy Statement for the Annual Meeting of Stockholders to be held on August 29, 2000, under the caption "Security Ownership of Management and Certain Beneficial Owners," which information is incorporated by reference herein.

Item 13. Certain Relationships and Related Transactions

The information required by this Item is set forth in our Proxy Statement for the Annual Meeting of Stockholders to be held on August 29, 2000, under the captions "Certain Relationships and Related Transactions" and "Director Compensation and Other Arrangements."

PART IV

Item 14. Exhibits, Financial Statement Schedules, and Reports on Form 8-K

- (a)(1) Financial Statements.

Consolidated Financial Statements

Report of Independent Accountants

Consolidated Balance Sheet as of April 29, 2000, and April 24, 1999

Consolidated Statement of Operations for the fiscal years ended April 29, 2000 (53 weeks), April 24, 1999 (52 weeks), and April 25, 1998 (52 weeks)

Consolidated Statement of Stockholders' Equity for the fiscal years ended April 29, 2000 (53 weeks), April 24, 1999 (52 weeks), and April 25, 1998 (52 weeks)

Consolidated Statement of Cash Flows for the fiscal years ended April 29, 2000 (53 weeks), April 24, 1999 (52 weeks), and April 25, 1998 (52 weeks)

Notes to Consolidated Financial Statements

(a) (2) Financial Statement Schedule.

Schedule for the fiscal years ended April 29, 2000 (53 weeks), April 24, 1999 (52 weeks), and April 25, 1998 (52 weeks): Schedule II - Valuation and Qualifying Accounts.

(a) (3) Exhibits.

See (c) below.

(b) Reports on Form 8-K.

None.

(c) Exhibits.

See the Exhibit Index, which is incorporated by reference herein.

(d) Financial Statements Excluded from Annual Report to Shareholders.

Not applicable.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has caused this report to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of Appleton, State of Wisconsin, on July 11, 2000.

SCHOOL SPECIALTY, INC.

By: /s/ Daniel P. Spalding

Daniel P. Spalding,
Chief Executive Officer

Each person whose signature appears below hereby constitutes and appoints Daniel P. Spalding and Mary M. Kabacinski, and each of them, as his or her true and lawful attorney-in-fact and agent, with full power of substitution, to sign on his or her behalf individually and in the capacity stated below and to perform any acts necessary to be done in order to file any and all amendments to this Annual Report on Form 10-K, and to file the same, with all exhibits thereto and all other documents in connection therewith and each of the undersigned does hereby ratify and confirm all that said attorney-in-fact and agent, or his substitutes, shall do or cause to be done by virtue thereof.

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed by the following persons in the capacities and on the dates indicated below.

Name

Title

Date

/s/ Daniel P. Spalding ----- Daniel P. Spalding	Chief Executive Officer (Principal Executive Officer) and Director	July 11, 2000
/s/ Mary M. Kabacinski ----- Mary M. Kabacinski	Chief Financial Officer (Principal Financial and Accounting Officer)	July 11, 2000
/s/ David J. Vander Zanden ----- David J. Vander Zanden	President, Chief Operating Officer and Director	July 11, 2000
/s/ Jonathan J. Ledecky ----- Jonathan J. Ledecky	Director	July 11, 2000
/s/ Rochelle Lamm ----- Rochelle Lamm	Director	July 11, 2000
/s/ Leo C. McKenna ----- Leo C. McKenna	Director	July 11, 2000
/s/ Jerome M. Pool ----- Jerome M. Pool	Director	July 11, 2000

INDEX TO EXHIBITS

Exhibit Number	Document Description
3.1	Restated Certificate of Incorporation.1
3.2	Amended and Restated Bylaws.1
4.1	Form of Stock Certificate.1
10.1	Distribution Agreement among U.S. Office Products Company, Workflow Management, Inc., Aztec Consulting, Inc., Navigant International, Inc. and School Specialty, Inc.2
10.2	Tax Allocation Agreement among U.S. Office Products Company, Workflow Management, Inc., Aztec Technology Partners, Inc., Navigant International, Inc. and School Specialty, Inc.1
10.3	Tax Indemnification Agreement among Workflow Management, Inc., Aztec Technology Partners, Inc., Navigant International, Inc. and School Specialty, Inc.2
10.4	Employee Benefits Agreement among Workflow Management, Inc., Aztec Technology Partners, Inc., Navigant International, Inc. and School Specialty, Inc.2
10.5	Employment Agreement dated September 3, 1999 between Daniel P. Spalding and School Specialty, Inc.3
10.6	Employment Agreement dated September 3, 1999 between Mary M. Kabacinski and School Specialty, Inc.3
10.7	Employment Agreement dated September 3, 1999 between Donald J. Noskowiak and School Specialty, Inc.3
10.8	Employment Agreement dated June 30, 1998 between Roger D. Pannier and School Specialty, Inc.4
10.9	Employment Agreement dated March 2, 1999 between Peter Savitz and School Specialty, Inc.4
10.10	Employment Agreement dated March 29, 1999 between Brian Chapin and School Specialty, Inc.4

- 10.11 Employment Agreement dated July 26, 1996 between Donald Ray Pate, Jr. and The Re-Print Corp.5
- 10.12(a) Employment Agreement dated June 27, 1997 between Richard H. Nagel and Sax Arts and Crafts, Inc.5
- 10.12(b) Covenant Not to Compete Agreement dated June 27, 1997 between Richard H. Nagel and Sax Arts and Crafts, Inc.9
- 10.13 Employment Agreement between David Vander Zanden and School Specialty, Inc.6
- 10.14 Employment Agreement between School Specialty, Inc. and Jonathan J. Ledecy.6
- 10.15 Amended Services Agreement dated as of June 8, 1998 between U.S. Office Products and Jonathan J. Ledecy.7
- 10.16 Amended and Restated 1998 Stock Incentive Plan.

Exhibit

Number Document Description

- 10.17 JuneBox.com, Inc. 2000 Equity Incentive Plan.
- 10.18 Amended and Restated Credit Agreement dated as of September 30, 1998 among School Specialty, Inc., certain subsidiaries and affiliates of School Specialty, Inc., the lenders named therein and Nationsbank, N.A., Bank One, Wisconsin and U.S. Bank National Association.8
- 10.19 Lease dated as of June 30, 1998 between Roger D. Pannier and Pamela S. Pannier as lessor and School Specialty, Inc. as lessee.
- 10.20 Lease dated as of July 1, 1990 between Larry Joseph and Peter Savitz Partners as lessor and Select Service & Supply, Co., Inc. as lessee including Sublease Agreement and amendments thereto.
- 21.1 Subsidiaries of School Specialty, Inc.
- 23.1 Consent of PricewaterhouseCoopers LLP.
- 27.1 Financial Data Schedule.
- 99.1 Schedule II - Valuation and Qualifying Accounts.

1 Incorporated by reference to School Specialty's Pre-Effective Amendment No. 3 to the Registration Statement on Form S-1 filed with the SEC on June 4, 1998; Registration No. 333-47509.

2 Incorporated by reference to School Specialty's Pre-Effective Amendment No. 2 to the Registration Statement on Form S-1 filed with the SEC on May 18, 1998; Registration No. 333-47509.

3 Incorporated by reference to School Specialty's Form 10-Q for the period ended October 23, 1999, as filed with the SEC on December 7, 1999.

4 Incorporated by reference to School Specialty's Form 10-Q for the period ended July 24, 1999, as filed with the SEC on September 7, 1999.

5 Incorporated by reference to School Specialty's Pre-Effective Amendment No. 1 to the Registration Statement on Form S-1 filed with the SEC on May 6, 1998; Registration No. 333-46537.

6 Incorporated by reference to School Specialty's Annual Report on Form 10-K filed with the SEC on

July 24, 1998.

- 7 Incorporated by reference to School Specialty's Pre-Effective Amendment No. 4 to the Registration Statement on Form S-1 filed with the SEC on June 9, 1998; Registration No. 333-47509.
- 8 Incorporated by reference to School Specialty's Form 10-Q for the period ended January 23, 1999, as filed with the SEC on March 1, 1999.
- 9 Incorporated by reference to School Specialty's Registration Statement on Form S-1 filed with the SEC on March 1, 1999; Registration No. 333-73103.

AMENDED AND RESTATED
SCHOOL SPECIALTY, INC.
1998 STOCK INCENTIVE PLAN
as of June 20, 2000

PURPOSE SCHOOL SPECIALTY, INC., a Delaware corporation (the "Company"), wishes to recruit, reward, and retain employees, consultants, independent contractors, advisors, officers and outside directors. To further these objectives, the Company hereby sets forth the School Specialty, Inc. 1998 Stock Incentive Plan (the "Plan") to provide options ("Options") or direct grants ("Stock Grants" and, together with the Options, "Awards") to employees, consultants, independent contractors, advisors, officers and outside directors with respect to shares of the Company's common stock (the "Common Stock"). The Plan was originally effective as of the effective date (the "Effective Date") of the Company's registration under Section 12 of the Securities Exchange Act of 1934 (the "Exchange Act") with respect to its initial public offering ("IPO"), and this amendment and restatement is effective as of June 20, 2000.

PARTICIPANTS The following persons are eligible to receive Options and Stock Grants under the Plan: (1) current and prospective Employees (as defined below) of the Company and any Eligible Subsidiary (as defined in the Eligible Subsidiary section below), (2) consultants, advisors and independent contractors of the Company and any Eligible Subsidiary and (3) officers and directors of the Company and any Eligible Subsidiary who are not Employees ("Eligible Officers and Eligible Directors"). Eligible persons become "Optionees" when the Administrator grants them an option under this Plan or "Recipients" when they receive a direct grant of Common Stock. (Optionees and Recipients are referred to collectively as "Participants." The term Participant also includes, where appropriate, a person authorized to exercise an Award in place of the original Optionee.)

Employee means any person employed as a common law employee of the Company or an Eligible Subsidiary.

ADMINISTRATOR The Administrator will be the Compensation Committee of the Board of Directors of the Company (the "Compensation Committee"), unless the Board specifies another committee. The Board may also act under the Plan as though it were the Compensation Committee.

The Administrator is responsible for the general operation and administration of the Plan and for carrying out its provisions and has full discretion in

interpreting and administering the provisions of the Plan. Subject to the express provisions of the Plan, the Administrator may exercise such powers and authority of the Board as the Administrator may find necessary or appropriate to carry out its functions. The Administrator may delegate its functions (other than those described in the Granting of Awards section) to Employees of the Company.

The Administrator's powers will include, but not be limited to, the power to amend, waive, or extend any provision or limitation of any Award. The Administrator may act through meetings of a majority of its members or by unanimous consent.

GRANTING OF AWARDS

Subject to the terms of the Plan, the Administrator will, in its sole discretion, determine:

the Participants who receive Awards,

the terms of such Awards,

the schedule for exercisability or nonforfeitability (including any requirements that the Participant or the Company satisfy performance criteria),

the time and conditions for expiration of the Award, and

the form of payment due upon exercise, if any.

The Administrator's determinations under the Plan need not be uniform and need not consider whether possible Participants are similarly situated.

Options granted to Employees may be nonqualified stock options ("NQSOs") or "incentive stock options" ("ISOs") within the meaning of Section 422 of the Internal Revenue Code of 1986, as amended from time to time (the "Code"), or the corresponding provision of any subsequently enacted tax statute. Options granted to consultants, independent contractors, advisors, Eligible Officers and Eligible Directors, including Formula Options (as defined below), must be NQSOs. The Administrator will not grant ISOs unless the stockholders either have already approved the granting of ISOs or give such approval within 12 months after the grant.

The Administrator may impose such conditions on or charge such price for the Stock Grants as it deems appropriate.

SUBSTITUTIONS

The Administrator may also grant Awards in substitution for options or other equity interests held by

individuals who become Employees of the Company or of an Eligible Subsidiary as a result of the Company's acquiring or merging with the individual's employer or acquiring its assets. In addition, the Administrator may provide for the Plan's assumption of Awards granted outside the Plan (including those granted by an Eligible Subsidiary) to persons who would have been eligible under the terms of the Plan to receive an Award, including both persons who provided services to any acquired company or business and persons who provided services to the Company or any Eligible Subsidiary. If appropriate to conform the Awards to the interests for which they are substitutes, the Administrator may grant substitute Awards under terms and conditions (including Exercise Price) that vary from those the Plan otherwise requires. Awards in substitution for U.S. Office Products' options in connection with the distribution by U.S. Office Products of the Company's Common Stock will retain their pre-distribution exercise schedule and terms (including Change of Control provisions) and expiration date.

JUNEBOX
OPTIONS

Awards in substitution for options issued by JuneBox.com, Inc. ("JuneBox") will, unless the Administrator determines otherwise, retain their pre-distribution exercise schedule and expiration dates, but any Change of Control provisions will thereafter refer to the Company under the rules set forth in this Plan for any such awards that have not become fully exercisable on or before their assumption under this Plan, unless the Administrator provides otherwise. In replacing JuneBox options, the Administrator may adjust the Exercise Price and number of shares covered by JuneBox options in its discretion to reflect the relative value of JuneBox as an Eligible Subsidiary of the Company. It may determine the relative value in any manner it considers appropriate.

DIRECTOR
FORMULA
OPTIONS

Each Eligible Director will receive a formula stock option ("Formula Option") with respect to 15,000 shares of Common Stock upon the first to occur of their initial appointment or election to the Board (with the grant made as of the date of such appointment or election). Thereafter, each Eligible Director serving on the Board will receive a Formula Option annually with respect to 5,000 shares of Common Stock on a date determined by the Administrator. The Exercise Price for Formula Options will be the Fair Market Value on the Date of Grant.

EXERCISE
SCHEDULE

Unless the Administrator specifies otherwise, each Formula Option will become exercisable as to 20% of the covered shares on the first anniversary of its Date of Grant (as defined in the Date of Grant section below), an

additional 30% on the second anniversary, and the remaining 50% on or after the third anniversary. A Formula Option will become exercisable in its entirety upon the Eligible Director's death, Disability, or attainment of age 70. Options will be forfeited to the extent they are not then exercisable if an Eligible Director resigns or fails to be reelected as a director. Exercisable options will expire as provided under Award Expiration.

DATE OF GRANT The Date of Grant will be the date as of which this Plan or the Administrator grants an Award to a Participant, as specified in the Plan or in the Administrator's minutes or other written evidence of action.

EXERCISE PRICE The Exercise Price is the value of the consideration that a Participant must provide in exchange for one share of Common Stock. The Administrator will determine the Exercise Price under each Award and may set the Exercise Price without regard to the Exercise Price of any other Awards granted at the same or any other time. The Company may use the consideration it receives from the Participant for general corporate purposes.

The Exercise Price per share for NQSOs may not be less than 100% of the Fair Market Value (as defined below) of a share on the Date of Grant. If an Option is intended to be an ISO, the Exercise Price per share may not be less than 100% of the Fair Market Value (on the Date of Grant) of a share of Common Stock covered by the Option; provided, however, that if the Administrator decides to grant an ISO to someone covered by Sections 422(b)(6) and 424(d) (as a more-than-10%-stockholder), the Exercise Price of the Option must be at least 110% of the Fair Market Value (on the Date of Grant).

The Administrator may satisfy any state law requirements regarding adequate consideration for Stock Grants by (i) issuing Common Stock held as treasury stock or (ii) charging the Recipients at least the par value for the shares covered by the Stock Grant. The Administrator may designate that a Recipient may satisfy (ii) above either by direct payments or by the Administrator's withholding from other payments due to the Recipient.

FAIR MARKET VALUE Fair Market Value of a share of Common Stock for purposes of the Plan will be determined as follows:

If the Common Stock trades on a national securities exchange, the closing sale price on the Date of Grant;

If the Common Stock does not trade on any such exchange, the closing

sale price as reported by the National Association of Securities Dealers, Inc. Automated Quotation System ("Nasdaq") for such date;

If no such closing sale price information is available, the average of the closing bid and asked prices that Nasdaq reports for such date;

If there are no such closing bid and asked prices, the average of the closing bid and asked prices as reported by any other commercial service for such date; or

If the Company has no publicly-traded stock, the Administrator will determine the Fair Market Value for purposes of the Plan using any measure of value it determines in good faith to be appropriate.

For any date that is not a trading day, the Fair Market Value of a share of Common Stock for such date shall be determined by using the closing sale price or the average of the closing bid and asked prices, as appropriate, for the immediately preceding trading day. The Administrator can substitute a particular time of day or other measure of "closing sale price" if appropriate because of changes in exchange or market procedures.

The Fair Market Value will be deemed equal to the IPO price for any Options granted as of the date on which the IPO's underwriters price the IPO or granted on the following day before trading opens in the Common Stock.

The Administrator has sole discretion to determine the Fair Market Value for purposes of this Plan, and all Awards are conditioned on the recipient's agreement that the Administrator's determination is conclusive and binding even though others might make a different and also reasonable determination.

EXERCISABILITY The Administrator will determine the times and conditions for exercise of or purchase under each Award but may not extend the period for exercise beyond the tenth anniversary of its Date of Grant (or five years for ISOs granted to 10% owners covered by Code Sections 422(b)(6) and 424(d)).

Awards will become exercisable at such times and in such manner as the Administrator determines and the Award Agreement, if any, indicates; provided, however, that the Administrator may, on such terms and conditions as it determines appropriate, accelerate the time at which the Participant may

exercise any portion of an Award or at which restrictions on Stock Grants lapse. For Stock Grants, "exercise" refers to acceptance of the Award or lapse of restrictions, as appropriate in context.

If the Administrator does not specify otherwise, Options will become exercisable and restrictions on Stock Grants will lapse as to one-fourth of the covered shares on each of the first four anniversaries of the Date of Grant, so long as the recipient remains employed or continues his relationship as a service provider to the Company or any Eligible Subsidiary, and will expire as of the tenth anniversary of the Date of Grant (unless they expire earlier under the Plan or the Award Agreement). The Administrator has the sole discretion to determine that a change in service-providing relationship eliminates any further service credit on the exercise schedule.

No portion of an Award that is unexercisable at a recipient's termination of service-providing relationship (for any reason) will thereafter become exercisable (and the recipient will immediately forfeit any unexercisable portions at his termination of service-providing relationship), unless the Award Agreement or the Plan provides otherwise, either initially or by amendment.

Termination of service-providing relationship will not occur for recipients who are Employees, officers, or directors of JuneBox until the earlier of (i) the date they leave all service-providing relationships with both JuneBox and the Company or (ii) the first day

of the 13th month beginning after the date JuneBox ceases to be an Eligible Subsidiary, unless the Administrator agrees to other treatment.

CHANGE OF
CONTROL

Upon a Change of Control (as defined below), all Options held by current Employees, consultants, advisors, independent contractors, Eligible Officers and Eligible Directors will become fully exercisable and all restrictions on Stock Grants will lapse. A Change of Control for this purpose means the occurrence of any one or more of the following events:

a person, entity, or group (other than the Company, any Company subsidiary, any Company benefit plan, or any underwriter temporarily holding securities for an offering of such securities) acquires ownership of more than 50% of the undiluted total voting power of the Company's then-outstanding

securities eligible to vote to elect members of the Board ("Company Voting Securities");

completion of a merger or consolidation of the Company with or into any other entity-unless the holders of the Company Voting Securities outstanding immediately before such completion, together with any trustee or other fiduciary holding securities under a Company benefit plan, hold securities that represent immediately after such merger or consolidation at least 50% of the combined voting power of the then outstanding voting securities of either the Company or the other surviving entity or its parent; or

the stockholders of the Company approve (i) a plan of complete liquidation or dissolution of the Company or (ii) an agreement for the Company's sale or disposition of all or substantially all the Company's assets, and such liquidation, dissolution, sale, or disposition is completed.

Even if other tests are met, a Change of Control has not occurred under any circumstance in which the Company files for bankruptcy protection or is reorganized following a bankruptcy filing.

The Administrator may allow conditional exercises in advance of the completion of a Change of Control that are then rescinded if no Change of Control occurs.

The Adjustments Upon Changes in Capital Stock provisions will also apply if the Change of Control is a Substantial Corporate Change (as defined in those sections).

LIMITATION
ON ISOs

An Option granted to an Employee will be an ISO only to the extent that the aggregate Fair Market Value (determined at the Date of Grant) of the stock with respect to which ISOs are exercisable for the first time by the Optionee during any calendar year (under the Plan and all other plans of the Company and its subsidiary corporations, within the meaning of Code Section 422(d)), does not exceed \$100,000. This limitation applies to Options in the order in which such Options were granted. If, by design or operation, the Option exceeds this limit, the excess will be treated as an NQSO.

METHOD OF
EXERCISE

To exercise any exercisable portion of an Award, the Participant must:

Deliver a notice of exercise to the Assistant Secretary of the Company designated by the Board (or to whomever the Administrator designates), in a form complying

with any rules the Administrator may issue, signed or otherwise authenticated by the Participant, and specifying the number of shares of Common Stock underlying the portion of the Award the Participant is exercising;

Pay the full Exercise Price, if any, by cashier's or certified check for the shares of Common Stock with respect to which the Award is being exercised, unless the Administrator consents to another form of payment (which could include the use of Common Stock); and

Deliver to the Administrator such representations and documents as the Administrator, in its sole discretion, may consider necessary or advisable.

Payment in full of the Exercise Price need not accompany the written notice of exercise if the exercise complies with a previously-approved cashless exercise method, including, for example, that the notice directs that the stock certificates (or other indicia of ownership) for the shares issued upon the exercise be delivered to a licensed broker acceptable to the Company as the agent for the individual exercising the Option and at the time the stock certificates (or other indicia) are delivered to the broker, the broker will tender to the Company cash or cash equivalents acceptable to the Company and equal to the Exercise Price and any required withholding taxes.

If the Administrator agrees to allow an Optionee to pay through tendering Common Stock to the Company, the individual can only tender stock he or she has held for at least six months at the time of surrender. Shares of stock offered as payment will be valued, for purposes of determining the extent to which the Participant has paid the Exercise Price, at their Fair Market Value on the date of exercise. The Administrator may also, in its discretion, accept attestation of ownership of Common Stock and issue a net number of shares upon Option exercise or by having a broker tender to the Company cash equal to the Exercise Price and any withholding taxes.

AWARD
EXPIRATION

No one may exercise an Award more than ten years after its Date of Grant (or five years, for an ISO granted to a more-than-10% stockholder). A recipient will immediately forfeit and can never exercise any portion of an Award that is unexercisable at his termination of service-providing relationship (for any reason), unless the Award Agreement or the Plan provides otherwise, either initially or by amendment. Unless the Award Agreement

or the Plan provides otherwise, either initially or by amendment, no one may exercise otherwise exercisable portions of an Award after the first to occur of:

EMPLOYMENT
TERMINATION

The 90th day after the date of termination of service-providing relationship (other than for death or Disability), where termination of employment means the time when the employer-employee or other service providing relationship between the Employee, consultant, independent contractor, advisor or Eligible Officer and the Company (and the Eligible Subsidiaries) ends for any reason, including retirement. For grants after June 20, 2000, the Administrator may provide that Awards terminate immediately upon termination of employment for "cause" under an Employee's employment or consultant's services agreement or under another definition specified in the Award Agreement. Unless the Award Agreement provides otherwise, termination of employment does not include instances in which the Company immediately rehires an Employee as a consultant, independent contractor or advisor. The Administrator, in its sole discretion, will determine all questions of whether particular terminations or leaves of absence are terminations of employment and may decide to suspend the exercise schedule during a leave rather than to terminate the Award. Unless the Award Agreement or the Exercisability section provides otherwise, terminations of employment include situations in which the Participant's employer ceases to be related to the Company closely enough to be an Eligible Subsidiary for new grants;

GROSS
MISCONDUCT

For the Company's termination of the Participant's service-providing relationship as a

result of the Participant's Gross Misconduct, the time of such termination. For purposes of this Plan, "Gross Misconduct" means the Participant has

committed fraud, misappropriation, embezzlement, or willful misconduct that has resulted or is likely to result in material harm to the Company or an Eligible Subsidiary;

committed or been indicted for or convicted of, or pled guilty or no contest to, any misdemeanor (other than for minor infractions or traffic violations) involving fraud, breach of trust, misappropriation, or other similar activity or otherwise relating to the Company or an Eligible Subsidiary, or any felony; or

committed an act of gross negligence or otherwise acted with

willful disregard for the Company's or an Eligible Subsidiary's best interests in a manner that has resulted or is likely to result in material harm to the Company or an Eligible Subsidiary.

If the Participant has a written employment or other agreement in effect at the time of his termination that specifies "cause" for termination, "Gross Misconduct" for purposes of his termination will refer to "cause" under the employment or other agreement, rather than to the foregoing definition.

DISABILITY For Disability, the earlier of (i) the first anniversary of the Participant's termination of employment for Disability and (ii) 30 days after the Participant no longer has a Disability, where "Disability" means the inability to engage in any substantial gainful activity by reason of any medically determinable physical or mental impairment that can be expected to result in death or that has lasted or can be expected to last for a continuous period of not less than twelve months; or

DEATH The date 24 months after the Participant's death.

If exercise is permitted after termination of service-providing relationship, the Award will nevertheless expire as of the date that the former service provider violates any covenant not to compete in effect between the Company or any Eligible Subsidiary and such person. In addition, an Optionee who exercises an Option more than 90 days after termination of employment with the Company and/or an Eligible Subsidiary will only receive ISO treatment to the extent permitted by law, and becoming or remaining an employee of another related company (that is not an Eligible Subsidiary) or an independent contractor to the Company and the Eligible Subsidiaries will not prevent loss of ISO status because of the formal termination of employment.

Nothing in this Plan extends the term of an Award beyond the tenth anniversary of its Date of Grant, nor does anything in this Award Expiration section make an Award exercisable that has not otherwise become exercisable.

AWARD AGREEMENT Award Agreements will set forth the terms of each Award and will include such terms and conditions, consistent with the Plan, as the Administrator may determine are necessary or advisable. To the extent the agreement is inconsistent with the Plan, the Plan will govern. The Award Agreements may contain special rules. The Administrator may, but is not

required to, issue agreements for Stock Grants.

STOCK SUBJECT TO PLAN Except as adjusted below under Adjustments upon Changes in Capital Stock,

the aggregate number of shares of Common Stock that may be issued under the Awards (whether ISOs, NQSOs, or Stock Grants) may not exceed 20% percent of the total number of shares of Common Stock outstanding, determined immediately after the grant of the Award;

the maximum number of shares that may be subject to ISOs may not exceed 3,487,600; and

the maximum number of shares that may be granted under Awards for a single individual in a calendar year may not exceed 1,200,000. (The individual maximum applies only to Awards first made under this Plan and not to Awards made in substitution of a prior employer's options or other incentives, except as Code Section 162(m) otherwise requires.)

The Common Stock will come from either authorized but unissued shares or from previously issued shares that the Company reacquires, including shares it purchases on the open market. If any Award expires, is canceled, or terminates for any other reason, the shares of Common Stock available under that Award will again be available for the granting of new Awards (but will be counted against that calendar year's limit for a given individual).

No adjustment will be made for a dividend or other right (except a stock dividend) for which the record date precedes the date of exercise.

The Participant will have no rights of a stockholder with respect to the shares of stock subject to an Award except to the extent that the Company has issued certificates for, or otherwise confirmed ownership of, such shares upon the exercise of the Award.

The Company will not issue fractional shares pursuant to the exercise of an Award, but the Administrator may, in its discretion, direct the Company to make a cash payment in lieu of fractional shares.

PERSON WHO MAY EXERCISE During the Participant's lifetime, only the Participant or his duly appointed guardian or personal representative may exercise the Awards. After his death, his personal representative or any other person authorized under a will or under the laws of descent and distribution may

exercise any then exercisable portion of an Award. If someone other than the original recipient seeks to exercise any portion of an Award, the Administrator may request such proof as it may consider necessary or appropriate of the person's right to exercise the Award.

ADJUSTMENTS UPON CHANGES IN CAPITAL STOCK Subject to any required action by the Company (which it shall promptly take) or its stockholders, and subject to the provisions of applicable corporate law, if, after the Date of Grant of an Award,

the outstanding shares of Common Stock increase or decrease or change into or are exchanged for a different number or kind of security because of any recapitalization, reclassification, stock split, reverse stock split, combination of shares, exchange of shares, stock dividend, or other distribution payable in capital stock, or

some other increase or decrease in such Common Stock occurs without the Company's receiving consideration

the Administrator may make a proportionate and appropriate adjustment in the number of shares of Common Stock underlying each Award, so that the proportionate interest of the Participant immediately following such event will, to the extent practicable, be the same as immediately before such event. (This adjustment does not apply to Common Stock that the Optionee has already purchased nor to Stock Grants that are already nonforfeitable, except to the extent of similar treatment for most stockholders.) Unless the Administrator determines another method would be appropriate, any such adjustment to an Award will not change the total price with respect to shares of Common Stock underlying the unexercised portion of the Award but will include a corresponding proportionate adjustment in the Award's Exercise Price. The Administrator will make a commensurate change to the maximum number and kind of shares provided in the Stock Subject to Plan section.

Any issue by the Company of any class of preferred stock, or securities convertible into shares of common or preferred stock of any class, will not affect, and no adjustment by reason thereof will be made with respect to, the number of shares of Common Stock subject to any Award or the Exercise Price except as this Adjustments section specifically provides. The grant of an Award under the Plan will not affect in any way the right or power of the Company to make adjustments, reclassifications, reorganizations or

changes of its capital or business structure, or to merge or to consolidate, or to dissolve, liquidate, sell, or transfer all or any part of its business or assets.

SUBSTANTIAL CORPORATE CHANGE Upon a Substantial Corporate Change, the Plan and any unexercised Awards will terminate unless provision is made in writing in connection with such transaction for the assumption or continuation of outstanding Awards, or the substitution for such options or grants of any options or grants covering the stock or securities of a successor employer corporation, or a parent or subsidiary of such successor, with appropriate adjustments as to the number and kind of shares of stock and prices, in which event the Awards will continue in the manner and under the terms so provided.

Unless the Administrator determines otherwise, if an Award would otherwise terminate under the preceding sentence, Participants who are then Employees, consultants, advisors, independent contractors, Eligible Officers and Eligible Directors will have the right, at such time before the consummation of the transaction causing such termination as the Administrator reasonably designates, upon such reasonable notice as determined by the Administrator, to exercise any unexercised portions of the Award, whether or not they had previously become exercisable. However, unless the Administrator determines otherwise, the acceleration will not occur if it would render unavailable "pooling of interest" accounting for any reorganization, merger, or consolidation of the Company.

A Substantial Corporate Change means:

the dissolution or liquidation of the Company,

merger, consolidation, or reorganization of the Company with one or more corporations in which the Company is not the surviving corporation,

the sale of substantially all of the assets of the Company to another corporation, or

any transaction (including a merger or reorganization in which the Company survives) approved by the Board that results in any person or entity (other than any affiliate of the Company as defined in Rule 144(a)(1) under the Securities

Act, any Company subsidiary, any Company benefit plan, or any underwriter temporarily holding securities for an offering of such securities) owning 100% of the combined voting power of all classes of stock of

the Company.

ELIGIBLE
SUBSIDIARY

Eligible Subsidiary means each of the Company's Subsidiaries, except as the Administrator otherwise specifies. For ISO grants, Subsidiary means any corporation (other than the Company) in an unbroken chain of corporations including the Company if, at the time an ISO is granted to a Participant under the Plan, each corporation (other than the last corporation in the unbroken chain) owns stock possessing 50% or more of the total combined voting power of all classes of stock in another corporation in such chain. For ISO purposes, Subsidiary also includes a single-member limited liability company included within the chain described in the preceding sentence. For NQSOs, the Administrator may use a different definition of Subsidiary in its discretion and may include other forms of entity at the same level of equity relationship (or such other level as the Board or the Administrator specifies).

LEGAL
COMPLIANCE

The Company will not issue any shares of Common Stock under an Award until all applicable requirements imposed by Federal and state securities and other laws, rules, and regulations, and by any applicable regulatory agencies or stock exchanges, have been fully met. To that end, the Company may require the Participant to take any reasonable action to comply with such requirements before issuing such shares, including compliance with any Company black-out periods or trading restrictions. No provision in the Plan or action taken under it authorizes any action that is otherwise prohibited by Federal or state laws.

The Plan is intended to conform to the extent necessary with all provisions of the Securities Act of 1933, as amended (the "Securities Act"), and the Securities Exchange Act of 1934, as amended (the "Exchange Act"), and all regulations and rules the Securities and Exchange Commission issues under those laws. Notwithstanding anything in the Plan to the contrary, the Administrator must administer the Plan, and Awards may be granted and exercised, only in a way that conforms to such laws, rules, and regulations. To the extent permitted by applicable law, the Plan and any Awards will be deemed amended to the extent necessary to conform to such laws, rules, and regulations.

PURCHASE FOR
INVESTMENT
AND OTHER
RESTRICTIONS

Unless a registration statement under the Securities Act covers the shares of Common Stock a Participant receives upon exercise of his Award, the Administrator may require, at the time of such exercise or receipt of a grant, that the Participant agree in writing to acquire such shares for investment and not for public resale or distribution, unless and until the shares subject to the Award are

registered under the Securities Act. Unless the shares are registered under the Securities Act, the Participant must acknowledge:

that the shares purchased on exercise of the Award are not so registered,

that the Participant may not sell or otherwise transfer the shares unless:

the shares have been registered under the Securities Act in connection with the sale or transfer thereof, or

counsel satisfactory to the Company has issued an opinion satisfactory to the Company that the sale or other transfer of such shares is exempt from registration under the Securities Act, and

such sale or transfer complies with all other applicable laws, rules, and regulations, including all applicable Federal and state securities laws, rules, and regulations.

Additionally, the Common Stock, when issued upon the exercise of an Award, will be subject to any other transfer restrictions, rights of first refusal, and rights of repurchase set forth in or incorporated by reference into other applicable documents, including the Company's articles or certificate of incorporation, by-laws, or generally applicable stockholders' agreements.

The Administrator may, in its sole discretion, take whatever additional actions it deems appropriate to comply with such restrictions and applicable laws, including placing legends on certificates and issuing stop-transfer orders to transfer agents and registrars.

TAX
WITHOLDING

The Participant must satisfy all applicable Federal, state, and local income and employment tax withholding requirements before the Company will deliver stock certificates or otherwise recognize ownership upon the exercise of an Award. The Company may decide to satisfy the withholding obligations through additional withholding on salary or wages. If the Company does not or cannot withhold from other compensation, the Participant must pay the Company, with a cashier's check or certified check, the full amounts required by withholding. Payment of withholding obligations is due before the Company issues shares with respect to the Award. If the Administrator so determines, the Participant may instead satisfy the withholding obligations by directing the

Company to retain shares from the Award exercise, by tendering previously owned shares, or by attesting to his ownership of shares (with the distribution of net shares).

TRANSFERS,
ASSIGNMENTS,
AND PLEDGES

Unless the Administrator otherwise approves in advance in writing for estate planning or other purposes, an Award may not be assigned, pledged, or otherwise transferred in any way, whether by operation of law or otherwise or through any legal or equitable proceedings (including bankruptcy), by the Participant to any person, except by will or by operation of applicable laws of descent and distribution. If necessary to comply with Rule 16b-3 of the Exchange Act, the Participant may not transfer or pledge shares of Common Stock acquired under a Stock Grant or upon exercise of an Option until at least six months have elapsed from (but excluding) the Date of Grant, unless the Administrator approves otherwise in advance in writing. The Administrator may, in its discretion, expressly provide that a Participant may transfer his Award without receiving consideration to (i) members of his immediate family (children, grandchildren, or spouse); (ii) trusts for the benefit of such family members; or (iii) partnerships where the only partners are such family members.

AMENDMENT OR
TERMINATION
OF PLAN AND
AWARDS

The Board may amend, suspend, or terminate the Plan at any time, without the consent of the Participants or their beneficiaries; provided however, that no amendment will deprive any Participant or beneficiary of any previously declared Award. Except as required by law or by the Adjustments upon Changes in Capital Stock section, the Board may not, without the Participant's or beneficiary's consent, modify the terms and conditions of an Award so as to adversely affect the Participant. No amendment, suspension, or termination of the Plan will, without the Participant's or beneficiary's consent, terminate or adversely affect any right or obligations under any outstanding Awards.

PRIVILEGES
OF STOCK
OWNERSHIP

No Participant and no beneficiary or other person claiming under or through such Participant will have any right, title, or interest in or to any shares of Common Stock allocated or reserved under the Plan or subject to any Award except as to such shares of Common Stock if any, already issued to such Participant.

EFFECT ON
OTHER PLANS

Whether exercising or receiving an Award causes the Participant to accrue or receive additional benefits under any pension or other plan is governed solely by the terms of such other plan.

LIMITATIONS ON LIABILITY Notwithstanding any other provisions of the Plan, no individual acting as an agent of the Company shall be liable to any Participant, former Participant, spouse, beneficiary, or any other person for any claim, loss, liability, or expense incurred in connection with the Plan, nor shall such individual be personally liable because of any contract or other instrument he executes in such other capacity. The Company will indemnify and hold harmless each agent of the Company to whom any duty or power relating to the administration or interpretation of the Plan has been or will be delegated, against any cost or expense (including attorneys' fees) or liability (including any sum paid in settlement of a claim with the Administrator's approval) arising out of any act or omission to act concerning this Plan unless arising out of such person's own fraud or bad faith.

NO EMPLOYMENT CONTRACT Nothing contained in this Plan constitutes an employment contract between the Company and the Participants. The Plan does not give any Participant any right to be retained in the Company's employ, nor does it enlarge or diminish the Company's right to end the Participant's employment or other relationship with the Company.

APPLICABLE LAW The laws of the State of Delaware (other than its choice of law provisions) govern this Plan and its interpretation.

DURATION OF PLAN Unless the Board extends the Plan's term, the Administrator may not grant Awards after June 8, 2008. The Plan will then terminate but will continue to govern unexercised and unexpired Awards.

JuneBox.com, Inc.
2000 Equity Incentive Plan
as of June 20, 2000

Purpose JuneBox.com, Inc., a Wisconsin corporation (the "Company"), wishes to recruit, reward, and retain employees, directors, and other service providers, including consultants. To further these objectives, the Company hereby sets forth the JuneBox.com, Inc. 2000 Equity Incentive Plan (the "Plan"), effective as of June 20, 2000 (the "Effective Date"), to provide options ("Options") to employees, directors, and other service providers of the Company and its Related Companies to purchase shares of the Company's common stock (the "Common Stock").

Participants All Employees of the Company and of any Eligible Affiliates are eligible for Options under this Plan. Eligible individuals become "optionees" when the Administrator grants them an option under this Plan. The Administrator may also grant options to directors, consultants, and certain other service providers. The term optionee also includes, where appropriate, a person authorized to exercise an Option in place of the original recipient. A director serving on behalf of an investor may, in advance of a grant, request that the Company grant the option directly to the investor, provided that the resulting grant may not qualify for exemption from registration under Rule 701 or for registration on Form S-8.

Employee means any person employed as a common law employee of the Company or of a Related Company.

Administrator The Administrator is the Board of Directors of the Company (the "Board"), unless the Board specifies a committee of the Board. The Board of Directors of School Speciality, Inc. ("SSI") may act as Administrator of this Plan, either directly or through its compensation committee, so long as SSI is a Related Company, subject to ratification by the Company's Board of any actions taken. After an initial public offering ("IPO") covering the Company's stock, the Administrator will be the

Compensation Committee of the Board, unless the Board either specifies another committee or acts under the Plan as though it were the Compensation Committee.

The Administrator is responsible

for the general operation and administration of the Plan and for carrying out its provisions and has full discretion in interpreting and administering the provisions of the Plan. Subject to the express provisions of the Plan, the Administrator may exercise such powers and authority of the Board as the Administrator may find necessary or appropriate to carry out its functions. The Administrator may delegate its functions (other than those described in the Granting of Options section) to officers or other Employees of the Company.

The Administrator's powers will include, but not be limited to, the power to amend, waive, or extend any provision or limitation of any Option. The Administrator may act through meetings of a majority of its members or by unanimous consent.

Granting of
Options

Subject to the terms of the Plan, the Administrator will, in its sole discretion, determine

the persons who receive Options,

the terms of such Options,

the schedule for exercisability (including any requirements that the optionee or the Company satisfy performance criteria),

the time and conditions for expiration of the Options, and

the form of payment due upon exercise.

The Administrator's determinations under the Plan need not be uniform and need not consider whether possible recipients are similarly situated.

Options granted to Employees may be "incentive stock options" ("ISOs") within the meaning of Section 422 of the Internal Revenue Code of 1986 (the "Code"), or the corresponding provision of any subsequently enacted tax statute, or nonqualified stock options ("NQSOs"), and the

Administrator will specify which form of option it is granting. (If the Administrator fails to specify the form of an option grant to an Employee, it will be an ISO to the extent the tax laws permit.) Any options granted to outside directors or other persons who are not Employees must be nonqualified stock options.

Substitutions The Administrator may grant Options in substitution for options or other equity interests held by individuals who become Employees of the Company or of a Related Company as a result of the Company's or Related Company's acquiring or merging with the individual's employer or acquiring its assets or through transfer from SSI. In addition, the Administrator may provide for the Plan's assumption of options granted outside the Plan to persons who would have been eligible under the terms of the Plan to receive a grant, including both persons who provided services to any acquired company or business and persons who provided services to the Company or any Related Company. If appropriate to conform the Options to the interests for which they are substitutes, the Administrator may grant substitute Options under terms and conditions (including Exercise Price) that vary from those the Plan otherwise requires.

Awards in substitution for SSI's options in connection with the distribution by SSI of the Company's Common stock to its public stockholders (the "Distribution") will retain their pre-Distribution exercise schedule and expiration dates, but any Change of Control provisions will thereafter refer to the Company under the rules set forth in this Plan for any Options that have not become fully exercisable on or before the Distribution.

Director
Formula
Options

Each director of the Company who is not an Employee of the Company or a Related Company (an "Eligible Director") will receive a formula stock option ("Formula Option") as of the Effective Date with respect to 15,000 shares of Common Stock, as will each Eligible Director later appointed or elected to the Board (with the grant made as of the date of his first election or appointment). Each Eligible Director serving on the Board at each annual meeting of the Company's shareholders (beginning with the first meeting after December 31, 2000) will receive a Formula Option as of that meeting with respect to 5,000 shares of Common Stock. The Exercise Price for Formula Options will be the Fair Market Value on the Date of Grant.

Exercise
Schedule

Unless the Administrator specifies otherwise, each Formula Option will become exercisable as to 20% of the covered shares on the first anniversary of its Date of Grant, an additional 30% on the

second anniversary, and the remaining 50% on or after the third anniversary. A Formula Option will become exercisable in its entirety upon the director's death, disability, or attainment of age 70. Options will be forfeited to the extent they are not then exercisable if a director resigns or fails to be reelected as a director. Exercisable options will expire as provided under Option Expiration.

Date Of Grant The Date of Grant will be the date as of which the Plan or the Administrator grants an Option to a person, as specified in the Plan or in the Administrator's minutes or other written evidence of action.

Exercise Price The Exercise Price is the value of the consideration that an optionee must provide in exchange for one share of Common Stock. The Administrator will determine the Exercise Price under each Option and may set the Exercise Price without regard to the Exercise Price of any other Options granted at the same or any other time. The Company may use the consideration it receives from the optionee for general corporate purposes.

The Exercise Price per share for NQSOs may not be less than 100% of the Fair Market Value of a share on the Date of Grant. For ISOs, the Exercise Price per share must be at least 100% of the Fair Market Value (on the Date of Grant) of a share of Common Stock covered by the Option; provided, however, that if the Administrator decides to grant an ISO to someone covered by Code Sections 422(b)(6) and 424(d) (as a more-than-10%-stockholder), the Exercise Price must be at least 110% of the Fair Market Value.

Fair Market Value Fair Market Value of a share of Common Stock for purposes of the Plan will be determined as follows:

if the Company has no publicly-traded stock, the Administrator will determine the Fair Market Value for purposes of the Plan using any measure of value it determines in good faith to be appropriate;

if the Common Stock trades on a national securities exchange, the closing sale price on the Date of Grant;

if the Common Stock does not trade on any such exchange, the closing sale price as

reported by the National Association of Securities Dealers, Inc. Automated Quotation System ("Nasdaq") for such date;

if no such closing sale price information is available, the average of the closing bid and asked prices that Nasdaq reports for such date; or

if there are no such closing bid and asked prices, the average of the closing bid and asked prices as reported by any other commercial service for such date.

For any date that is not a trading day, the Fair Market Value of a share of Common Stock for such date will be determined by using the closing sale price or the average of the closing bid and asked prices, as appropriate, for the immediately preceding trading day. The Administrator can substitute a particular time of day or other measure of "closing sale price" if appropriate because of changes in exchange or market procedures.

With respect to any Options granted as of the IPO or conditioned on the IPO, the Fair Market Value will be treated as equal to the price established in the IPO for any such Options if they are granted on or before the date on which the IPO's underwriters price the IPO or granted on the following day before trading opens in the Common Stock.

The Administrator has sole discretion to determine the Fair Market Value for purposes of this Plan, and all Options are

conditioned on the optionees' agreement that the Administrator's determination is conclusive and binding even though others might make a different and also reasonable determination.

Exercisability

The Administrator will determine the times and conditions for exercise of each Option.

Options will become exercisable at such times and in such manner as the Administrator determines and the Option Agreement indicates; provided, however, that the Administrator may, on such terms and conditions as it determines appropriate, accelerate the time at which the optionee may exercise any portion of an Option.

If the Administrator does not specify otherwise, Options will

become exercisable as to one-sixth of the covered shares on the sixth month anniversary of the Date of Grant and as to an additional 2.778% on the first day of each succeeding month, so long as the optionee remains employed or continues his relationship as a service provider, and will expire as of the tenth anniversary of the Date of Grant (unless they expire earlier under the Plan or the Option Agreement). The Administrator has the sole discretion to determine that a change in service-providing relationship eliminates any further service credit on the exercise schedule.

No portion of an Option that is unexercisable at an optionee's termination of service-providing relationship (for any reason) will thereafter become exercisable (and the optionee will immediately forfeit any unexercisable portions at his termination of service-providing relationship), unless the Option Agreement provides otherwise, either initially or by amendment.

Termination of service-providing relationship will not occur for optionees who are Employees, officers, or directors of SSI until the earlier of (i) the date they leave all service-providing relationships with both SSI and the Company and (ii) the first day of the 13th month beginning after the date SSI ceases to be a Related Company, unless the SSI Board of Directors or a committee of such board agrees to other treatment.

Change of Control

Upon a Change of Control, all Options will become fully exercisable, unless the optionee's Option Agreement provides otherwise. A Change of Control for this purpose means the occurrence of any one or more of the following events (and, before the Distribution, also includes comparable changes with respect to SSI):

- (i) sale of all or substantially all of the assets of the Company to one or more individuals, entities, or groups (other than an Excluded Owner);
- (ii) complete or substantially complete dissolution or liquidation of the Company (other than into an Excluded Owner);
- (iii) a person, entity, or

group (other than an Excluded Owner) acquires or attains ownership of more than 50% of the undiluted total voting power of the Company's then-outstanding securities eligible to vote to elect members of the Board ("Company Voting Securities");

(iv) completion of a merger or consolidation of the Company with or into any other entity (other than an Excluded Owner) unless the holders of the Company Voting Securities outstanding immediately before such completion, together with any trustee or other fiduciary holding securities under a Company benefit plan, retain control because they hold securities that represent immediately after such merger or consolidation at least 50% of the combined voting power of the then outstanding voting securities of either the Company or the other surviving entity or its ultimate parent; or

(v) after an IPO, the individuals who constitute the Board immediately before a proxy contest cease to constitute at least a majority of the Board (excluding any Board seat that is vacant or otherwise unoccupied) immediately following the proxy contest.

An "Excluded Owner" consists of SSI, the Company, any Related Company, any Company benefit plan, or any

underwriter temporarily holding securities for an offering of such securities.

Even if other tests are met, a Change of Control has not occurred under any circumstance in which the Company files for bankruptcy protection or is reorganized following a bankruptcy filing. The Administrator may determine that a particular optionee's Options will not become fully exercisable as a result of what the Administrator, in its sole discretion, determines is the optionee's insufficient cooperation with the Company with respect to a Change of Control. In addition, the acceleration will not occur if it would prevent use of "pooling of interest" accounting for a reorganization, merger, or consolidation of the Company that the Board approves.

The Company's IPO will not constitute a Change of Control. The Company's Distribution will constitute a Change of Control but only for persons whose service-providing relationship continues with SSI but not with the Company immediately after the Distribution.

The Administrator may allow conditional exercises in advance of the completion of a Change of Control that are then rescinded if no Change of Control occurs. The Administrator may also provide that the accelerations under the Change of Control occur automatically up to six months after the Change of Control.

Substantial
Corporate
Change

Upon a Change of Control that is also a Substantial Corporate Change, the Options will become exercisable (unless the Change of Control section provides otherwise) and the Plan and any unexercised Options will terminate (after the occurrence of one of the alternatives set forth in the next full paragraph) unless either (i) such termination would prevent use of "pooling of interest" accounting for a reorganization, merger, or consolidation of the Company that the Board approves, (ii) an agreement with an optionee provides otherwise, or (iii) provision is made in writing in connection with such transaction for

the assumption or continuation of outstanding Options (which could include replacement by SSI), or

the substitution for such options or grants of any options or grants covering the stock or securities of

a successor employer entity, or a parent or subsidiary of such successor or by SSI or a successor to SSI, with appropriate adjustments as to the number and kind of shares of stock and prices, in which event the Options will continue in the manner and under the terms so provided.

If an Option would otherwise terminate under the preceding sentence and the Administrator considers that the Fair Market Value of the Common Stock as a result of the Substantial Corporate Change exceeds or is likely to exceed the Exercise Price, the Administrator will either

provide that optionees will have the right, at such time

before the completion of the transaction causing such termination as the Board or the Administrator reasonably designates, to exercise any unexercised portions of the Option, including those portions that the Change of Control will make exercisable or

cause the Company, or agree to allow the successor, to cancel each Option after payment to the optionee of an amount in cash, cash equivalents, or successor equity interests substantially equal to the Fair Market Value under the transaction minus the Exercise Price for the shares covered by the Option (and, where the Board or the Administrator determines it is appropriate, any required tax withholdings).

The Administrator may allow conditional exercises in advance of the completion of a Substantial Corporate Change that are then rescinded if no Substantial Corporate Change occurs. The Board or other Administrator may take any actions described in the Substantial Corporate Change section, without any requirement to seek optionee consent. A "Substantial Corporate Change" means any of the following events:

a sale as described in clause (i) under Change of Control,

a dissolution or liquidation as described in clause (ii),

an ownership change as described in clause (iii), but with the percentage ownership increased to 100%, merger, consolidation, or reorganization of the Company with or into one or more corporations or other entities in which the Company is not the surviving entity, other than a transaction intended primarily to change the Company's state of incorporation or that satisfies clause (iv) under Change of Control, or

any other transaction (including a merger or reorganization in which the Company survives) approved by the Board that results in any person or entity (other than an Excluded Owner) owning 100% of Company Voting Securities.

Limitation on
ISOs

An Option granted to an Employee will be an ISO only to the extent that the aggregate Fair Market Value (determined at the Date of Grant) of the stock with respect to which ISOs are exercisable for the first time by the optionee during any calendar year (under the Plan and all other plans of the Company and its subsidiary corporations, within the meaning of Code Section 422(d)), does not exceed \$100,000. This limitation applies to Options in the order in which such Options were granted. If, by design or operation, the Option exceeds this limit, the excess will be treated as an NQSO.

Method of
Exercise

To exercise any exercisable portion of an Option, the optionee must:

Deliver notice of exercise to the Secretary or Assistant Secretary of the Company (or to whomever the Administrator designates), in a form complying with any rules the Administrator may issue, signed or otherwise authenticated by the optionee, and specifying the number of shares of Common Stock underlying the portion of the Option the optionee is exercising;

Pay the full Exercise Price by cash or a cashier's or certified check for the shares of Common Stock

with respect to which the Option is being exercised, unless the Administrator consents to another form of payment (which could include loans from the Company or the use of Common Stock); and

Deliver to the Administrator such representations and documents as the Administrator, in its sole discretion, may consider necessary or advisable.

After an IPO, payment in full of the Exercise Price need not accompany the written notice of exercise if the exercise complies with a previously-approved cashless exercise method, including, for example, that the notice directs that the stock certificates (or other indicia of ownership) for the shares issued upon the exercise be delivered to a licensed broker acceptable to the Company as the agent for the individual exercising the option and at the time the stock certificates (or other

indicia) are delivered to the broker, the broker will tender to the Company cash or cash equivalents acceptable to the Company and equal to the Exercise Price and any required withholding taxes.

If the Administrator agrees to allow an optionee to pay through tendering shares of Common Stock to the Company, the individual can only tender stock he has held for at least six months at the time of surrender. Shares of stock offered as payment will be valued, for purposes of determining the extent to which the optionee has paid the Exercise Price, at their Fair Market Value on the date of exercise. The Administrator may also, in its discretion, accept attestation of ownership of Common Stock and issue a net number of shares upon Option exercise, or, after an IPO, by having a broker tender to the Company cash equal to the Exercise Price and any withholding taxes.

Option
Expiration

No one may exercise an Option more than ten years after its Date of Grant (or five years for ISOs granted to 10% owners covered by Code Sections 422(b)(6) and 424(d)). An Optionee will immediately forfeit and can never exercise any portion of an Option that is unexercisable at his termination of service-providing relationship (for any reason), unless the Option Agreement provides otherwise, either initially or by amendment. Unless the Option Agreement provides otherwise, either initially or by

amendment, no one may exercise otherwise exercisable portions of an Option after the first to occur of:

Employment
Termination

The 90th day after the date of termination of service-providing relationship (other than for death or Disability), where termination of service-providing relationship means the time when the employer-employee or other service-providing relationship between the individual and the Company (and all Related Companies) ends for any reason. The Administrator may provide that Options terminate immediately upon termination of employment for "cause" under an Employee's employment or consultant's services agreement or under another definition specified in the

Option Agreement. Unless the Option Agreement provides otherwise, termination of service-providing relationship does not include instances in which the Company immediately rehires a common law employee as an independent contractor. The Administrator, in its sole discretion, will determine all questions of whether particular terminations or leaves of absence are terminations of employment and may decide to suspend the exercise schedule during a leave rather than to terminate the option. Unless the Option Agreement or the Exercisability section provides otherwise, terminations of employment include situations in which the optionee's employer ceases to be related to the Company closely enough to be a Related Company for new grants.

Gross Misconduct

For the Company's termination of the optionee's service-providing relationship as a result of the optionee's Gross Misconduct, the time of such termination. For purposes of this Plan, "Gross Misconduct" means the optionee has

committed fraud, misappropriation, embezzlement, or willful misconduct that has resulted or is likely to result in material harm to the Company or a Related Company;

committed or been indicted for or convicted of, or pled guilty or no contest to, any

misdemeanor (other than for minor infractions or traffic violations) involving fraud, breach of trust, misappropriation, or other similar activity or otherwise relating to the Company, or any felony; or

committed an act of gross negligence or otherwise acted with willful disregard for the Company's or a Related Company's best interests in a manner that has resulted or is likely to result in material harm to the Company or a Related Company.

If the optionee has a written employment or other agreement in effect at the time of his termination that specifies "cause" for termination, "Gross Misconduct" for purposes of his termination will refer to "cause" under the employment or other agreement, rather than to the foregoing definition.

Disability

For disability, the earlier of (i) the first anniversary of the optionee's termination of employment for disability and (ii) 90 days after the optionee no longer has a disability, where "disability" means the inability to engage in any substantial gainful activity because of any medically determinable physical or mental impairment that can be expected to result in death or that has lasted or can be expected to last for a continuous period of not less than 12 months, or, if the Company then maintains long-term disability insurance, the date as of which the individual is eligible for benefits under that insurance; or

Death

The date 24 months after the optionee's death.

If exercise is permitted after termination of service-providing relationship, the Option will nevertheless expire as of the date that the former service provider violates any covenant not to compete or other post-employment covenant in effect between the Company or a Related Company and the former employee or other service provider. In addition, an optionee who exercises an Option more than 90 days after termination of employment with the Company and/or Eligible Affiliates will only receive ISO treatment to the extent the law permits, and becoming

or remaining an employee of another related company (that is not an Eligible Affiliate) or an independent contractor will not prevent loss of ISO status because of the formal termination of employment.

Nothing in this Plan extends the term of an Option beyond the tenth anniversary of its Date of Grant, nor does anything in this Option Expiration section make an Option exercisable that has not otherwise become exercisable, unless the

Administrator specifies otherwise.

Option Agreement

Option Agreements (which could be certificates) will set forth the terms of each Option and will include such terms and conditions, consistent with the Plan, as the Administrator may determine are necessary or advisable. To the extent the agreement is inconsistent with the Plan, the Plan will govern. The Option Agreements may contain special rules.

Put and Call Rights; other Restrictions

The Administrator may provide in Option Agreements or other agreements that the Company has the right (or obligation) to purchase outstanding Options, or the shares received from exercising an Option, under certain circumstances, including termination of service-providing relationship for any reason or death and may provide for rights of first refusal. The Administrator may distinguish between unexercisable and exercisable Options. The Administrator may provide in Option Agreements that individuals who receive shares from exercising an Option may not transfer such shares without complying with the agreement's conditions.

Stock Subject To Plan

Except as adjusted below under Corporate Changes,

the aggregate number of shares of Common Stock that may be issued under Options may not exceed 20% of the shares of Common Stock (including preferred that is convertible into common as though it had been converted) issued and outstanding as of the date on which the Administrator seeks to make an additional grant (provided that a decrease in shares outstanding will not invalidate any previously issued Option),

the maximum number of shares that may be granted under Options for a single individual in a calendar year may not exceed 1,200,000, and

the aggregate number of shares of Common Stock that may be issued under ISOs may not exceed 3,500,000.

The Common Stock will come from either authorized but unissued shares or from previously issued shares that the Company reacquires, including shares it purchases on the open market or holds as

treasury shares. If any Option expires, is canceled, or terminates for any other reason, the shares of Common Stock available under that Option will again be available for the granting of new Options (but will be counted against that calendar year's limit, if any, for a given individual). Shares used as payment for the Exercise Price or any required withholdings will be added back to the totals available for issuance.

No adjustment will be made for a dividend or other right (except a stock dividend) for which the record date precedes the date of exercise.

The optionee will have no rights of a stockholder with respect to the shares of stock subject to an Option except to the extent that the Company has issued certificates for, or otherwise confirmed ownership of, such shares upon the exercise of the Option.

The Company will not issue fractional shares pursuant to the exercise of an Option, unless the Administrator determines otherwise, but the Administrator may, in its discretion, direct the Company to make a cash payment in lieu of fractional shares.

Person Who
May Exercise

During the optionee's lifetime and except as provided under Transfers, Assignments, and Pledges, only the optionee or his duly appointed guardian or personal representative may exercise the Options. After his death, his personal representative or any other person authorized under a will or under the laws of descent and distribution may exercise any then exercisable portion of an Option. If someone other than the original recipient seeks to exercise any portion of an Option, the Administrator may request such proof as it may consider necessary or appropriate of the person's right to exercise the Option.

Adjustments
Upon changes
In Capital

Subject to any required action by the Company (which it agrees to promptly take) or its stockholders, and subject to the provisions of applicable corporate law, if, after the Date

Stock

of Grant of an Option,

the outstanding shares of Common Stock increase or decrease or change into or are exchanged for a different number or kind of security because of any

recapitalization,
reclassification, stock split,
reverse stock split,
combination of shares,
exchange of shares, stock
dividend, or other
distribution payable in
capital stock, or

some other increase or
decrease in such Common Stock
occurs without the Company's
receiving consideration
(excluding, unless the
Administrator determines
otherwise, stock repurchases),

the Administrator must make a
proportionate and appropriate
adjustment in the number of shares
of Common Stock underlying each
Option, so that the proportionate
interest of the optionee
immediately following such event
will, to the extent practicable, be
the same as immediately before such
event. (This adjustment does not
apply to Common Stock that the
optionee has already purchased,
which is subject to the adjustments
applicable to Common Stock.)
Unless the Administrator determines
another method would be
appropriate, any such adjustment to
an Option will not change the total
price with respect to shares of
Common Stock underlying the
unexercised portion of the Option
but will include a corresponding
proportionate adjustment in the
Option's Exercise Price. The Board
or other Administrator may take any
actions described in this section
without any requirement to seek
optionee consent.

The Administrator will make a
commensurate change to the maximum
number and kind of shares provided
in the Stock Subject to Plan
section.

All references to numbers of shares
of Common Stock in the Plan and in
any Option grants made on or before
the IPO Effective Date assume that
the Company has 17.5 million shares
of Common Stock outstanding and
thus relate to proportionate
amounts of that level of equity.
After the Company first has at
least 17.5 million shares
outstanding, numbers will not be
adjusted except as otherwise
provided in this Adjustments
section.

Any issue by the Company of any
class of preferred stock, or
securities convertible into shares
of common or preferred

stock of any class, will not affect, and

no adjustment by reason thereof will be made with respect to, the number of shares of Common Stock subject to any Option or the Exercise Price except as this Adjustments section specifically provides. The grant of an Option under the Plan will not affect in any way the right or power of the Company to make adjustments, reclassifications, reorganizations or changes of its capital or business structure, or to merge or to consolidate, or to dissolve, liquidate, sell, or transfer all or any part of its business or assets.

Related
Company
Employees

Employees of Eligible Affiliates will be entitled to participate in the Plan, except as otherwise designated by the Board or the Administrator.

"Eligible Affiliate" means each of the Related Companies, except as the Administrator otherwise specifies. For ISO grants, "Related Company" means any corporation in an unbroken chain of corporations including the Company if, at the time an Option is granted to a Participant under the Plan, each corporation (other than the last corporation in the unbroken chain) owns stock possessing 50% or more of the total combined voting power of all classes of stock in another corporation in such chain. Related Company also includes a single-member limited liability company included within the chain described in the preceding sentence. The Board or the Administrator may use a different definition of Related Company for NQSOs and may include other forms of entity at the same level of equity relationship (or such other level as the Board or the Administrator specifies).

Legal
Compliance

The Company will not issue any shares of Common Stock under an Option until all applicable requirements imposed by Federal and state securities and other laws, rules, and regulations, and by any applicable regulatory agencies or stock exchanges, have been fully met. To that end, the Company may require the optionee to take any reasonable action to comply with such requirements before issuing such shares, including compliance with any Company black-out periods or trading restrictions. No provision in the Plan or action taken under it authorizes any action that Federal or state laws otherwise prohibit.

The Plan is intended to conform to the extent necessary with all provisions of the Securities Act of 1933

("Securities Act") and the Securities Exchange Act of 1934 and all regulations and rules the Securities and Exchange Commission issues under those laws. Notwithstanding anything in the Plan to the contrary, the Administrator must administer the Plan, and Options may be granted and exercised, only in a way that conforms to such laws, rules, and regulations. To the extent permitted by applicable law, the Plan and any Options will be treated as amended to the extent necessary to conform to such laws, rules, and regulations.

Purchase For
Investment
And Other
Restrictions

Unless a registration statement under the Securities Act covers the shares of Common Stock an optionee receives upon exercising his Option, the Administrator may require, at the time of such exercise, that the optionee agree in writing to acquire such shares for investment and not for public resale or distribution, unless and until the shares subject to the Option are registered under the Securities Act. Unless the shares are registered under the Securities Act, the optionee must acknowledge:

that the shares purchased on exercise of the Option are not so registered,

that the optionee may not sell or otherwise transfer the shares unless

such sale or transfer complies with all applicable laws, rules, and regulations, including all applicable Federal and state securities laws, rules, and regulations, and either

the shares have been registered under the Securities Act in connection with the sale or transfer thereof, or

counsel satisfactory to the Company has issued an opinion satisfactory to the Company that the sale or other transfer of such shares is exempt from registration under the Securities Act.

Additionally, the Common Stock, when issued upon the exercise of an Option, will be subject to any other transfer restrictions, rights of first refusal, rights of repurchase, and

voting agreements set forth in or incorporated by reference into other applicable documents, including the Option Agreements, or the Company's articles or certificate of incorporation, by-laws, or generally applicable stockholders' agreements.

The Administrator may, in its sole discretion, take whatever additional actions it deems appropriate to comply with such restrictions and applicable laws, including placing legends on certificates and issuing stop-transfer orders to transfer agents and registrars.

Tax Withholding

The optionee must satisfy all applicable Federal, state, and local income and employment tax withholding requirements before the Company will deliver stock certificates or otherwise recognize ownership upon the exercise of an Option. The Company may decide to satisfy the withholding obligations through additional withholding on salary or wages. If the Company does not or cannot withhold from other compensation, the optionee must pay the Company, with a cashier's check or certified check, the full amounts, if any, required for withholding. Payment of withholding obligations is due before the Company will issue any shares on exercise or, if the Administrator so requires, at the same time as is payment of the Exercise Price. If the Administrator so determines, the optionee may instead satisfy the withholding obligations by directing the Company to retain shares from the Option exercise, by tendering previously owned shares, or by attesting to his ownership of shares (with the distribution of net shares), or, after an IPO, by having a broker tender to the Company cash equal to the withholding taxes. Without any requirement to seek an optionee's consent, the Company may require the optionee to use one or more specified brokerage firms to exercise and to hold shares received from Options until the later of two years after exercise or one year after the Date of Grant.

Transfers,

Unless the Administrator otherwise

Assignments,
And Pledges

approves in advance in writing for estate planning or other purposes, an Option may not be assigned, pledged, or otherwise transferred in any way, whether by operation of law or otherwise or through any legal or equitable proceedings (including bankruptcy), by the optionee to any person, except by will or by operation of applicable laws of descent and distribution. If necessary to comply with Rule 16b-3, the optionee may not transfer or pledge shares of Common

Stock acquired upon exercise of an Option until at least six months have elapsed from (but excluding) the Date of Grant, unless the Administrator approves otherwise in advance in writing. The Administrator may, in its discretion, expressly provide that an optionee may transfer his Option, without receiving consideration, to (i) members of his immediate family (children, grandchildren, or spouse), (ii) trusts for the benefit of such family members, or (iii) partnerships whose only partners are such family members.

Amendment or
Termination
of Plan and
Options

The Board may amend, suspend, or terminate the Plan at any time, without the consent of the optionees or their beneficiaries; provided, however, that such actions are consistent with this section. Except as required by law or by the Substantial Corporate Change section, the Administrator may not, without the optionee's or beneficiary's consent, modify the terms and conditions of an Option so as to materially adversely affect the optionee. No amendment, suspension, or termination of the Plan will, without the optionee's or beneficiary's consent, terminate or materially adversely affect any right or obligations under any outstanding Options, except as provided in the Substantial Corporate Change Section.

Privileges of
Stock
Ownership

No optionee and no beneficiary or other person claiming under or through such optionee will have any right, title, or interest in or to any shares of Common Stock allocated or reserved under the Plan or subject to any Option except as to such shares of Common Stock, if any, already issued to such optionee.

Effect on
Other Plans

Whether exercising an Option causes the optionee to accrue or receive additional benefits under any pension or other plan is

governed solely by the terms of such other plan.

Limitations on Liability

Notwithstanding any other provisions of the Plan, no individual acting as a director, officer, other employee, or agent of the Company will be liable to any optionee, former optionee, spouse, beneficiary, or any other person for any claim, loss, liability, or expense incurred in connection with the Plan, nor will such individual be personally liable because of any contract or other instrument he executes in such other capacity. The Company will indemnify and hold harmless each director, officer, other employee, or agent of the Company to whom any duty or power relating to the administration or interpretation of the Plan has been

or will be delegated, against any cost or expense (including attorneys' fees) or liability (including any sum paid in settlement of a claim with the Board's approval) arising out of any act or omission to act concerning this Plan unless arising out of such person's own fraud or bad faith.

No Employment Contract

Nothing contained in this Plan constitutes an employment contract between the Company and the optionees. The Plan does not give any optionee any right to be retained in the Company's employ, nor does it enlarge or diminish the Company's right to end the optionee's employment or other relationship with the Company.

Applicable Law

The laws of the State of Wisconsin (other than its choice of law provisions) govern this Plan and its interpretation.

Duration of Plan

Unless the Board extends the Plan's term, the Administrator may not grant Options after June 20, 2010. The Plan will then terminate but will continue to govern unexercised and unexpired Options.

Approval of The Plan

The Plan must be submitted to Company stockholders for their approval within 12 months before or after the Board adopts the Plan to qualify any Options designated as ISOs for treatment as such. If the stockholders do not so approve the Plan, any outstanding ISOs will be treated as void and of no effect.

In addition, the Company will submit the Plan to its public stockholders on or before the first meeting of the public stockholders

that occurs at least 12 months
after the Company's IPO.

LEASE

THIS AGREEMENT made this 30th day of June, 1998, by and between ROGER D. PANNIER and PAMELA S. PANNIER, husband and wife, hereinafter called the "Lessor," and SCHOOL SPECIALTY, INC., a Delaware Corporation, hereinafter called the "Lessee."

1. LEASED PREMISES. Lessor, in consideration of the covenants of the said Lessee hereinafter set forth does by these presence lease to the said Lessee the following described property situated in Fremont, Dodge County, Nebraska, to-wit:

A parcel of land in the West Half of the East Half and in the East Half of the West Half, of Section 15, Township 17 North, Range 8 East of the 6th P.M., in Dodge County, Nebraska, bounded and described as follows: Commencing at a point on the West margin of the Airport Road 1314.4 feet North of the North margin of Linden Avenue and 80 feet West of the Burlington Railroad right of way; thence Northerly along the West margin of Airport Road a distance of 445.6 feet; thence Westerly parallel with the North margin of Linden Avenue a distance of 600 feet; thence Southerly parallel with the West margin of Airport Road a distance of 445.6 feet; thence Easterly parallel with the North margin of Linden Avenue 600 feet to the point of beginning, containing 6 acres, more or less, subject to Airport Road right-of-way and together with any lands owned by grantors on the West to the land herein described.

2. IMPROVEMENTS. The leased premises have been improved with a building with related fixtures which are included in this lease as a part of the demised premises.

3. LEASE TERM. The initial lease term shall be for a period of five (5) years commencing on the 1st day of July, 1998, and ending on the 30th day of June, 2003. Lessee is granted the option at the expiration of the original five (5) year term to continue the lease for an additional five (5) year term. Lessee shall notify Lessor in writing of its intent to exercise this option at least one 180 days prior to the conclusion of the initial term. The rent for the first extension of the lease will be determined in accordance with Paragraph 4 of this lease.

4. RENT. In consideration of the leasing of the aforescribed property, Lessee hereby agrees to pay Lessor as rent for said premises the following:

Initially the monthly rental for the premises will be \$14,700.00, payable in advance on the first day of each month throughout the term of the lease. The monthly rental shall be subject to adjustment each year on July 1st during the term of the lease, by that percentage, up or down, by which the Consumer Price Index published by the bureau of Labor Statistics of the United States Department of labor changes from the index on the preceding April 30th. The consumer Price Index used for the calculation of this adjustment shall be the index from the City that is the closet geographically to Fremont, Nebraska and which publishes the index on a monthly basis. If publication of the Consumer Price Index shall be discontinued, the parties shall accept comparable

statistics on the cost of living for the State of Nebraska, or if there be none, for the City of Omaha, as they shall be computed and published by an agency of the United States or by a responsible financial periodical of recognized authority then to be selected by the parties, or if the parties cannot agree upon a selection, by arbitration. The monthly rental shall be adjusted by a sum equal to the change in the consumer Price Index during the twelve (12) month period immediately preceding each April 30th.

5. LESSEE'S ACCEPTANCE OF PROPERTY. At the commencement of the lease term, Lessee shall accept the building, improvements, and any equipment on or in the leased premises in their existing condition. No representations, statement, warranties, expressed or implied, has been made by or on behalf of the Lessor as to such condition, or as to the use that may be made of such property except as may be contained in this lease. In no event shall the Lessor be liable for any defect in such property or for any limitations on its use except as may be contained in this lease. The leased premises are presently zoned industrial pursuant to the zoning laws of the City of Fremont, Dodge County, Nebraska. The zoning on the property presently permits the operation of a printing and publishing plant and all business associated therewith.

6. ENVIRONMENTAL WARRANTIES, REPRESENTATIONS & AGREEMENTS.

a. Definitions. The following terms shall have the following meanings for purposes of this Paragraph 6.

i. "Costs" shall mean all of the following:

(1) All costs ("Remedial Costs"), including, but not limited to, capital, operating, and maintenance costs, incurred in connection with the Remediations of the Property, whether or not such Remediation is voluntary, or in connection with the Remediation of any adjoining or neighboring property for which Lessee is alleged or found to be responsible. "Remedial Costs" shall include but not be limited to remedial costs as defined in 42 U.S.C. 9601(24), removal costs as defined in 42 U.S.C. 9601(25) and costs of repair of natural resource damage.

(2) All costs arising out of claims made by any governmental authority based on or relating to an alleged Environmental Condition, including Remedial Costs.

(3) All costs arising out of claims made by private parties, including, but not limited to, Remedial Costs, claims for reimbursement or contribution under CERCLA (as defined in section 1(c) hereof), or otherwise, claims for injury to person and claims for injury to property.

(4) All attorneys' fees and costs

relating to any of the foregoing.

- ii. "Environmental Condition" shall mean with respect to any property any condition that violates or fails to comply with any Environmental Laws or any condition requiring Remediation under Environmental Laws, including, but not limited to, all such

conditions that exist on such property, whether or not now known or knowable and whether or not currently foreseen by the parties hereto. Without limitation of the generality of the foregoing, "Environmental Condition" shall include the presence of any Hazardous Substance and shall include all of the conditions described or referred to in the attached Exhibit B or in the reports and other documents listed in the attached Exhibit B.

- iii. "Environmental Laws" shall mean all federal, estate, and local laws, including statutes, regulations, ordinances, codes, rules, and other governmental restrictions and requirements, relating to the discharge of air pollutants, water pollutants, or process waste water or otherwise relating to pollution, protection of the environment, or human health or other related matters (including any matters relating to emission, discharge, release, threatened release, generation, possession, or existence of hazardous or toxic substances, materials, or wastes), including, but not limited to, the Federal Solid Waste Disposal Act, the Federal Clean Air Act, the Federal Clean Water Act, the Federal Resource Conservation and Recovery Act of 1976, and the Federal Comprehensive Environmental Response, compensation, and Liability Act of 1980 ("CERCLA"), regulations of the Environmental Protection Agency, regulations of the Nuclear Regulatory Agency, and regulations of any state department of natural resources or state environmental protection agency, now or at any time hereafter in effect, as any of the foregoing may be amended from time to time.
- iv. "Environmental Permits" shall mean all permits, licenses, authorizations, registrations, and other governmental consents required under applicable Environmental laws relating to the use, storage, treatment, Remediation, and disposal of Hazardous

Substances or otherwise relating to or necessary for compliance with Environmental Laws.

- v. "Hazardous Substance" shall mean any substance, including, but not limited to, petroleum products and by-products, that is defined as a hazardous or toxic substance or hazardous or toxic waste under one or more Environmental Laws or any substance the generation, possession, or existing of which is prohibited or governed by one or more Environmental Laws.
 - vi. "Remediation" shall mean investigation or monitoring of site conditions, cleanup, containment, removal, or remediation of Hazardous Substances, repair of natural resource damage, and other action to correct, remediate, or terminate any Environmental Condition.
- b. Warranty Relating to the Property. Lessor warrants that (a) no Environmental Condition exists on or with respect to the Property will cause an Environmental Condition to exist on or with respect to the Property as a result of spreading, migration, seepage, or otherwise, and (b) no underground storage tanks are now located on the Property.
- c. Warranty and Agreement Relating to Lessor's Environmental Compliance. Lessor warrants and agrees that (a) Lessor is in compliance with all applicable Environmental laws with respect to the Lessor Property, the Property and Lessor's or prior tenant of the Lessor's operations on the Property, (b) Lessor has obtained and is in compliance with all Environmental Permits required to be obtained or complied with by Lessor as of the date hereof, and Lessor has or will obtain and comply with all Environmental Permits required to be obtained or complied with by Lessor in the future, and (c) all such Environmental Permits (other than those to be obtained in the future) are in full force and effect and lessor

has made all appropriate filings for issuance or renewal of such Environmental Permits.

- d. Release. Lessor releases Lessee, Lessee's directors, officers, shareholders, employees, parent corporation, subsidiaries, and agents, and the successors and assigns of any of the foregoing, against any and all claims (including, but not limited to, third party claims for personal injury or injury to property), actions, administrative proceedings (including

informal proceedings), judgment, damages, punitive damages, penalties, fines, costs, liabilities (including sums reasonably paid in settlement of claims and including attorneys' fees and expenses), interest, losses, consultant fees, and expert fees arising from or relating to any Environmental Condition on the Property, which existed as of the commencement of the term of this Lease including, but not limited to, all claims for reimbursement or contribution under CERCLA.

- e. Indemnification. Lessor indemnifies and holds harmless Lessee, Lessee's directors, officers, shareholders, employees, parent corporation, subsidiaries, and agents, mortgagees of the Property, and successors and assigns of any of the foregoing, against any and all claims (including, but not limited to, property), actions, administrative proceedings (including informal proceedings), judgments, damages, punitive damages, penalties, fines, costs, liabilities (including sums reasonably paid in settlements of claims and including attorneys' fees and expenses), interest, losses, consultant fees and expert fees arising from or relating to (a) the failure of any warranty or representation of Lessor herein to be true, correct, and complete, (b) the failure of Lessor to comply with Lessor's agreements in this section, or (c) any Environmental Condition on the Property or the Lessor Property, in the case of each of the foregoing, including but not limited to all Costs.

- f. Notice. Each of Lessor and Lessee agree to promptly provide to the other party copies of any notices, demands, claims, inquiries, or any other correspondence received from any governmental entity or private party relating to or alleging any Environmental Condition on the Property or on the Lessor Property.

- g. Survival of Obligations. Lessor's warranties, representations, and obligations under this Paragraph 6 shall survive termination of the term of the lease.

- h. Attorneys' Fees. Lessor shall pay all attorneys' fees and costs incurred by Lessee in any action based on this Paragraph 6.

7. ALTERATIONS. The Lessee shall not have the right, to make any alterations or improvements to the building on the leased property that exceed \$10,000.00, unless prior to commencement of any such alterations or improvements, the Lessee shall have procured the written consent of the Lessor. If consent is given:

(A) No change or alteration shall at any time be made which shall impair the structural soundness or diminish the value of the manufacturing building on the leased property.

(B) All work done in connection with any change or alteration shall be done in a good and workmanlike manner and in compliance with the Building and Zoning laws, and with all other laws, ordinances, orders, rules, regulations and requirements of all Federal, State and Municipal Governments, and appropriate departments, commissions, boards and officers thereof.

(C) Any alteration, addition, or improvements made by the Lessee shall remain the property of the Lessor. In addition, in the event Lessee fails to obtain the prior written permission prior to the commencement of any alterations, additions, improvements or changes in the premises, such alterations, additions or improvements shall become the property of the Lessor and shall remain on the premises at the termination of Lessee's tenancy.

8. USE OF LEASED PREMISES. The Lessee may use and occupy the leased premises for the purpose of a printing and publishing plant and all business associated therewith.

The Lessee shall be entitled to use the premises for purposes related to printing and publishing operations and for any other lawful purpose provided if same does not increase the casualty risk and cost of insurance to the facility. Further, the Lessee shall not use nor allow, nor permit the use of said premises for any unlawful, immoral, or objectional purposes; nor permit anything to be done which will create a fire hazard or nuisance; and comply with all applicable laws, regulations, and directions of governmental authorities. Lessee shall not permit anything to be done in or on the leased property which will in any way violate any governmental laws or regulations.

9. UTILITIES AND SERVICES. Lessor shall not be required to furnish Lessee any utilities or services. Lessee shall be responsible for all gas, electricity, telephone, water, sewer and any other utilities as may be required by Lessee. Lessee shall keep said leased premises free and clear of any lien or encumbrance of any kind whatsoever created by lessee's negligent act or omission and shall indemnify the Lessor against any liability or damages on such account.

10. TAXES. The Lessee shall be responsible for the real property taxes and assessments upon the leased property which are due and assessed during the lease term.

11. INSURANCE.

A. During the term, Lessee, at its own cost and expense, shall:

(1) Keep all buildings and improvements and equipment on, in or appurtenant to the demised premises at the commencement of the term and thereafter erected thereon or therein, insured against loss or damage by perils of fire, lightning, wind, hail, explosion, riot, riot attending a strike, civil commotion, aircraft, vehicles, smoke, vandalism and malicious mischief in an amount sufficient to cover the cost of replacing the building(s) and improvements (without deduction for depreciation), exclusive of foundation supports below the surface of the ground, and the costs of excavation, underground pipes, flues, wiring, and drains.

Such replacement value initially shall be determined to be \$1,500,000.00 and shall be determined from time to time, hereafter, but not more

frequently than once in any thirty-six (36) consecutive calendar months, at the request of Lessor, by one of the insurers or, at the option of Lessor, by an appraiser, architect or contractor who shall be mutually and reasonably acceptable to Lessor and Lessee.

(2) Provide and keep in force comprehensive general public liability insurance against claims for personal injury, death or property damage occurring on, in or about the demised premises or the adjoining, property and passageways. not less than single limit coverage in the amount of \$5,000,000.00.

(3) Provide and keep in force such other insurance and in such amounts as may from time to time be required by Lessor against such other insurable hazards as at the time are commonly insured against in the case of premises similarly situated.

B. All insurance provided by Lessee as required by Lessor shall be carried in favor of Lessor and Lessee, as their respective interest may appear, and any underlying Lessor, fee owner or affiliate corporation, trustee or mortgagee designed by lessor. If requested by Lessor, such insurance against fire or other casualty shall include the interest of the holder of any mortgage on the fee and shall provide that loss, if any, shall be payable to such holder under a standard mortgagee clause. Rent insurance and use and occupancy insurance may be carried in favor of Lessee but he proceeds thereof are hereby assigned to lessor to be held by Lessor as security for the payment of the rent and additional rent hereunder until restoration of the demised premises. All such insurance shall be taken in such responsible companies licensed to do business in the state in which the demised premises are located. All such policies shall be non-assessable and shall require thirty (30) days notice by registered mail to lessor of any cancellation thereof or change affecting Lessor's coverage thereunder.

C. Lessee shall procure policies for all such insurance for periods not less than one year and shall deliver to Lessor such policies or certificates thereof with evidence of the payment of premises thereon, and shall procure renewals thereof from time to time at least thirty (30) days before the expiration thereof.

D. Lessee and Lessor shall cooperate in connection with the collection of any insurance moneys that may be due in the event of loss, and Lessee shall execute and deliver to Lessor such proofs of loss and other instruments which may be required for the purpose of obtaining the recovery of any such insurance moneys. All insurance policies shall be written with insurance companies rated A+ or better by Best's Insurance Guide.

12. INDEMNIFICATION. Lessee will indemnify and save Lessor harmless from and against any and all claims, actions, damages, liability expenses in connection with loss of life, personal injury, and/or damage to property, arising from any act or omission of Lessee, its agents, family, employees, occupants, servants, guests or licensees.

13. DUTIES OF LESSEE. The Lessee shall faithfully perform the following duties:

(A) The Lessee shall be responsible for all repairs, maintenance, and other upkeep on the building.

(B) Maintain the occupied and used premises in a clean and safe condition, and upon termination of the residency, place premises in at least as clean a condition, except for ordinary wear and tear, as when the residency commenced.

(C) Dispose from the facility all wastes, rubbish, garbage and manure in a clean and safe manner and in accordance with all governmental regulations.

(D) Remove the snow and ice from all public and private areas located on the premises and to keep all weeds, grass and other vegetation cut and trimmed on the premises.

(E) Conduct themselves and require other persons on the premises with its consent to conduct themselves in a manner that will not disturb the neighbors' peaceful enjoyment of their premises.

(F) Lessee, shall at all times during the term, and at its own cost and expense, keep and maintain in good order and condition the building and all improvements on the demised premises and their full equipment and appurtenances, and make all repairs thereto and any restorations, replacements and renewals thereof, structural and non-

structural, seen and unforeseen, howsoever the necessity or desirability for repairs may occur and shall use all reasonable precaution to prevent waste, damage or injury, except normal and reasonable wear and tear.

14. NON-COMPLIANCE BY LESSEE. In the event of the Lessee's non-compliance with any provision of this lease, the Lessor may give written notice to the Lessee specifying the acts and omissions constituting the breach and that the lease agreement will terminate on a date not less than thirty (30) days after receipt of the notice if the breach is not remedied in fourteen (14) days and the rental agreement will then terminate as provided in that notice. In any event, the Lessor may terminate the lease agreement if rent is unpaid when due and the Lessee fails to pay rent within thirty (30) days after written notice by the Lessor of non-payment and their intentions to terminate the lease agreement if the rent is not paid within that period of time.

15. ENTRY TO PREMISES. The Lessor may enter onto the premises in order to inspect the premises, or exhibit the premises to prospective or actual purchasers, mortgagers, tenants, workmen, or contractors. Unless it is impractical to do so, the Lessor shall give the Lessee notice of its intent to

enter and shall enter only at reasonable times.

16. ASSIGNMENT AND SUBLETTING. The Lessee is permitted to assign this lease or any interest thereon or let or underlet the said premises, provided, however, that any assignment or sublet shall not release the liability of Lessee for the obligations due under this lease, further, any assignee shall also be made liable on this lease in addition and in conjunction with the obligation of Lessee. This lease shall be fully assignable by the Lessor or its assigns.

17. DESTRUCTION OF PREMISES. In the case of damage by fire or other major casualty to the building on the leased property, without the fault of the Lessee, if the damage is so extensive as to destroy the usefulness of the premises for the purpose for which the premises were lease then, either party to this lease may terminate the lease within thirty (30) days notice of the event which caused the total destruction of the leased property. In the event the lease is canceled by either party, the rent shall be apportioned to the time of the damage. In all other cases where the leased property is damaged by fire or other major casualty without the fault of

the Lessee, the Lessor shall have the option of repairing the damage and apportioning the rent until the damage has been repaired or to terminate the remaining part of the lease term.

18. CONDEMNATION. If the whole or any part of the premises hereby leased shall be taken by any public authority under the power of eminent domain, then the term of this lease shall cease on the part so taken from the day the possession of that part shall be required for any public purpose, and the rent shall be paid up to that day, and if such portion of the demised premises is so taken as to destroy the usefulness of the premises for the purpose for which the premises were lease then, from that day the Lessee shall have the right either to terminate this lease and declare the same null and void or to continue in the possession of the remainder of the same under the terms herein provided, except that the rent shall be reduced in proportion to the amount of the premises taken. All damages awarded for such taking shall belong to and be the property of the Lessor whether such damages shall be awarded as compensation for reduction in value to the lease-hold or to the fee of the premises herein leased; provided, however, that the Lessor shall not be entitled to any portion of the award made to the Lessee.

19. ATTORNEY FEES. In the event of any litigation between the parties hereto arising out of this lease, or the leased premises, the prevailing party shall be allowed all reasonable attorney fees expended or incurred in such litigation to be recovered as part of the cost therein.

20. FUTURE CONSTRUCTION. If during the term of this lease, Lessor and Lessee agree that Lessor shall construct and provide any additions to the building, Lessee agrees to pay Lessor an additional monthly rental in the sum of 1.25% of the total cost of the addition. This amount will be paid for the remaining of the lease and shall further be subject to the Consumer Price Index annual adjustment. Further, all other provisions of the lease will apply to the addition including but not limited to tax obligations, insurance obligations, repairs an maintenance obligations of Lessee.

21. NOTICES. Any and all notices or demands required or permitted to be given hereunder shall be deemed to be properly service if sent by registered or certified mail, postage prepaid, addressed as follows:

TO THE LESSOR: Roger D. Pannier & Pamela S. Pannier
1415 N. Bristolwood Drive
Fremont, NE 68025

TO THE LESSEE: School Specialty, Inc.
A Delaware Corporation
Atten: Daniel P. Spalding
1000 N. Bluemound Drive
P.O. Box 1579
Appleton, WI 54913-1579

or at such other address or addresses as ether party may hereafter designate in writing to the other. Any notice of demand so mailed shall be effective for all purposes at the time of deposit thereof in the United States mail.

22. ENTIRE AGREEMENT. This agreement contains the entire agreement between the parties regarding the subject matter of this lease and can only be amended in writing between the parties hereto. No representations by Lessor or Lessee or their agents not included herein shall be binding on the parties.

23. BINDING EFFECT. This agreement shall be binding upon the parties hereto, their heirs, legatees, personal representatives, successor and assigns.

24. GOVERNING LAW. This lease shall be governed by and construed in accordance with the laws of the State of Nebraska.

IN WITNESS WHEREOF, Lessor and Lessee have executed this lease agreement on the year and date above written.

/s/ Roger D. Pannier

Roger D. Pannier, Lessor

/s/ Pamela S. Pannier

Pamela S. Pannier, Lessor

School Specialty, Inc.
A Delaware Corporation, Lessee

BY: /s/ Donald J. Noskowiak

Its Representative (Chief Financial Officer)

LEASE AGREEMENT

THIS LEASE AGREEMENT (hereinafter referred to as the "Lease") is made and entered into this 1st day of July, 1990, by and between SELECT SERVICE & SUPPLY CO., INC. (hereinafter referred to as "Lessor") and SPORTIME (hereinafter referred to as "Lessee").

W I T N E S S E T H T H A T :

FOR AND IN CONSIDERATION of the rents, covenants, agreements and stipulations hereinafter mentioned, reserved and contained, to be paid, kept and performed by Lessee, Lessor has leased and rented, and by these presents does lease and rent, unto the said Lessee who hereby agrees to lease from Lessor, upon the terms and conditions which are hereinafter contained, the property hereinafter described.

1. Description of Premises. The property leased hereunder by Lessor to Lessee is that certain real property described on Exhibit "A" attached hereto (hereinafter referred to as the "Property"), together with (i) an office-warehouse currently existing thereon (hereinafter the Property as improved referred to as the "Premises"), and (ii) all easements running in favor of Lessor with respect to the Property, including specifically any and all easements for ingress and egress, parking easements and utility easements for the benefit of the Property.

2. Term. The term of this Lease (the "Lease Term") shall be for a period of fifteen (15) years commencing July 10, 1990 (the "Commencement Date"). The Lease Term shall commence upon the Commencement Date. If the Commencement Date is any day other than the first day of a calendar month, the first Lease Year shall be the period of time from the Commencement Date until the end of the month in which said Commencement Date shall occur plus twelve (12) calendar months. Each Lease Year thereafter shall be a successive period of twelve (12) months.

At any time during the Lease Term, and upon eighteen (18) months' advance written notice to Lessee, Lessor can terminate the Lease. If so terminated, all financial obligations of Lessee as set forth herein shall be prorated based on such termination date, and after such termination date neither Lessor nor Lessee shall have any further rights or obligations hereunder.

3. Rental. For each of the first five (5) Lease Years of the Lease Term, Lessee shall pay annual rent to Lessor in the amount of Two Hundred Forty-Three Thousand Two Hundred Seventy-Six and 60/100 Dollars (\$243,276.60) ("Rent") in equal monthly installments of Twenty Thousand Two Hundred Seventy-Three and 5/100 Dollars (\$20,273.05) each. Monthly installments of Rent shall be paid in advance on the first day of each calendar month, without demand, deduction or set off. Rent for any partial calendar month during the term hereof shall be prorated on a per diem basis.

For each successive five (5) Lease Year period thereafter, the Rent shall be equal to the Rent for the immediately preceding Lease Year of the Lease Term multiplied by a fraction,

the denominator of which is the "All Items" portion of the "Consumer Price Index for All Urban Consumers:

U.S. City Average" (1982-84=100), published by the Bureau of Labor Statistics of the United States Department of Labor, applicable on the date of this Lease (or for any subsequent five year period, the first day of such previous five year period), and the numerator of which is the index number for the first month of said successive five year lease period. In the event the Consumer Price Index of the Bureau of Labor Statistics of the United States Department of Labor is discontinued, Lessor shall select another index published by a department or agency of the United States Government to be substituted for the prior index, with any appropriate adjustment required because of the predecessor index.

As additional rent, lessee shall pay the taxes and insurance provided for in Paragraphs 4, 5 and 6 below. Sums other than Rent are designated as "Rent" or "additional rent" hereunder solely for the purpose of enabling Lessor to enforce its rights hereunder. Such sums shall not be deemed Rent for purposes of computing taxes or for governmental regulations thereon.

4. Taxes. Lessee covenants and agrees to pay any and all sales or use taxes imposed by any governmental authority relative to the direct activities of the Lessee on the Premises. Lessee further covenants and agrees to cause to be paid any and all ad valorem real estate taxes assessed by any governmental authority against the Premises and against any personalty owned by Lessee on the Premises. It being the intention of Lessor and Lessee that all such taxes incident to the Premises and the business conducted thereon be the sole responsibility of Lessee. Any ad valorem taxes assessed against the Premises for any part of a year in which this Lease commences or expires shall be prorated as between the parties.

5. Damages, Accidents, Liability, Insurance, Etc. Lessee will, at its own expense, furnish for the joint benefit of Lessor and Lessee, public liability and property damage insurance with minimum limits in the amount reasonably necessary to protect Lessor, Lessee and the Premises. It is further understood that in all events Lessee will indemnify and save harmless Lessor from and against any and all loss, liability, damages and judgments for injuries or accidents to persons or property (including to Lessor) of any nature and howsoever occurring on or about the Premises during the initial term of this Lease or any extended periods thereof and whether or not the same shall be covered adequately by any insurance.

Lessee agrees to deliver to Lessor on the Commencement Date and on the renewal date of such policy, the usual certificates of the insurance carrier certifying that such insurance is in force, but the obligation to Lessor shall not be limited to the amount of such insurance. There shall also be a clause in the insurance policies requiring that the policies will not be cancelled without Lessor receiving thirty (30) days prior written notice.

6. Reconstruction or Payment. Lessee agrees that it will maintain fire and extended coverage insurance with vandalism and malicious mischief and such other coverages as are reasonably requested by Lessor covering the Premises, which insurance shall be with an insurance company or companies authorized to do business in the State of Georgia, in an amount not less than 90% of the full insurable value of the building and other improvements on said leased Premises, and in any event not less than an amount sufficient to prevent the insured from

being a co-insurer under any applicable co-insurance clause, and to keep such insurance in full force and effect for and during the time any buildings and improvements are located on the Premises during the term of this Lease. For purposes hereof, "full insurable value" shall mean the replacement cost of the improvements without allowance for depreciation but excluding footings, foundations and other portions of improvements which are not insurable.

In the event that the improvements on the Premises shall be damaged or destroyed so as to render the Premises unfit for Lessee's continued occupation, Lessor shall have the following two options: First, lessor may elect to repair or rebuild the damaged or destroyed improvements, and in the event Lessor elects this option, it shall be entitled to the usage of the proceeds from the aforesaid insurance for such purposes. Second, lessor may elect not to repair or rebuild the damaged or destroyed improvements but in lieu thereof to terminate this Lease and if so terminated any and all insurance proceeds shall be paid to Lessor. Lessor shall notify Lessee in writing within thirty (30) days after the damage or destruction of the Premises which of the above two options it elects. If Lessor elects to restore the Premises, it shall commence the restoration promptly and shall continue said restoration with reasonable haste and diligence and shall complete same to the reasonable satisfaction of Lessee within one hundred eighty (180) days of said damage or destruction.

Lessee shall remain liable for the monthly rentals during any period of restoration of the Premises or during any of the various time periods during which Lessor is permitted to elect the options are herein set forth, but to the extent rental insurance is payable to Lessor during these periods, the rent payable by Lessee shall be abated to the extent of the rental insurance proceeds so received by Lessor. Upon the completion of such restoration and/or ceasing of payment of any rental insurance proceeds, then the full rental shall commence and the term of the Lease Agreement shall be extended by appropriate Lease Addendum to properly reflect any period of rental abatement.

Lessee agrees that it will carry fire and extended coverage insurance with vandalism and malicious mischief covering all of its personal property, improvements and equipment within the Premises.

Lessor and Lessee hereby release each other and anyone claiming through or under the other by way of subrogation or otherwise from any and all liability for any loss of or damage to property, whether or not caused by the negligence or fault of the other party caused by a casualty to the Premises or to the property. In addition, Lessee shall cause the insurance policy carried by it insuring the Premises or the contents thereof to be written to provide that the insurer waives all rights of recovery by way of subrogation against Lessor in connection with any loss or damage covered by the policy. Furthermore, Lessor and Lessee agree to indemnify and hold each other harmless from and against any and all claims, damages or causes of action for damages brought on account of injury to any person or persons or property, or loss of life, arising out of the use, operation or maintenance of the Property and the Premises.

7. Materialman's Lien. Lessee agrees to keep the Premises and all parts thereof at all times free of materialman's liens and other liens for labor, services, supplies, equipment or material purchased or procured, directly or indirectly, by or for Lessee. Should any mechanics',

materialman's or other liens be filed against the Premises by reason of the acts of Lessee, Lessee shall cause the lien to be cancelled and discharged of record by bond or otherwise within (30) days of receiving actual notice of such lien.

8. Utilities. Lessee is to pay all bills for electricity, gas, fuel, water and other utilities used by Lessee on or for the Premises during the original or any extended term of this Lease.

9. Repairs. All non-structural repairs to the Premises and the improvements thereon and the repair or replacement of the roof of the Premises shall be promptly made by Lessee so as to maintain same in good order and appearance at all times during the term of this Lease. Lessee shall also keep the Premises clean and free from debris on a daily basis. Lessor's maintenance obligations shall be limited solely to the repair and maintenance of the foundation and exterior walls of the Premises.

10. Alterations or Improvements. Lessee shall not make material changes or structural alterations to the Premises without first obtaining the written consent of Lessor.

11. Delivery at End of Lease. Lessee agrees to deliver to Lessor, or Lessors agent or assigns, the Premises at the expiration or earlier termination of this Lease, with the keys of same, cleared of all persons and property not belonging to Lessor, in the same good order and condition as the Premises were received by Lessee, and to make good all damage to the Premises, ordinary wear and tear and damage by casualty or condemnation, excepted. No demand or notice of such delivery shall be necessary.

12. Right of Entry. Lessor reserves the right during the term of this Lease to enter the Premises at reasonable hours to show the same or inspect the same.

13. Assignment and Subletting. Lessee shall not assign this lease or any interest therein nor sublease the Premises or any part thereof or any right or privilege appurtenant thereto, nor permit the occupancy or use of any part thereof by any other person without the prior written consent of the Lessor. Consent to such assignment or sublease shall be in Lessor's sole discretion.

14. Default of Rent, Etc. All covenants and agreements herein made and obligations assumed are to be construed also as conditions, and these presents are upon the express condition that if Lessee should (i) fail to pay when due any one of the aforesaid rent installments and the said failure to pay shall continue for ten (10) days after receipt of written notice to Lessee by Lessor of such failure to pay, or (ii) fail to perform or observe any of the other covenants, agreements or obligations herein made or assumed by Lessee and Lessee shall fail to cure such default matter within thirty (30) days after receipt of written notice to Lessee by Lessor of such default, then and thenceforth, in any of the said events (hereinafter referred to as an "event of default"), this Lease may

be forfeited and thereby become null and void, at the option of Lessor. Upon an event of default, Lessor may immediately re-enter the Premises or any part thereof in the name of the whole, and remove therefrom all goods and chattels not thereto properly belonging, and expel Lessee and all other persons who may be in possession of the Premises, and Lessor shall thereafter be entitled to recover of Lessee the annual rental herein reserved for

the remaining portion of the initial term or any extended term (should this Lease have been renewed for such term). Lessor shall not be liable to Lessee in the event of reletting for any larger amount of rent which Lessor is able to procure for said unexpired portion of the initial term or an extended term.

15. Right to Terminate Not Exclusive. The right of Lessor to terminate this Lease as herein set forth is in addition to and not in exhaustion of such other rights that Lessor has or causes of action that may accrue to lessor because of Lessee's failure to fulfill, perform or observe the obligations, agreements or covenants of this Lease Agreement and the exercise or pursuit by Lessor of any of the rights or causes of action that Lessor might otherwise have.

16. Insolvency or Bankruptcy. In the event of the insolvency or bankruptcy of Lessee or the filing of any petition under the Bankruptcy Act, voluntarily or involuntarily, and such bankruptcy proceeding is not stayed within ninety (90) days of the filing of such petition, or in the event of a partial or general assignment for the benefit of a creditor, or creditors, or in the event any other federal or state insolvency proceeding is commenced against or by Lessee and not stayed within ninety (90) days of filing, then Lessor shall have the right and privilege to either (i) immediately terminate this Lease by thirty (30) days' written notice or (ii) re-enter into possession of the Premises and hold Lessee liable for the difference, if any, between the minimum annual rental reserved for the remaining portion of the initial term or any extended term (should this Lease have been renewed for such term) and any rental received by Lessor upon the reletting of the Premises. Lessor shall not be liable to Lessee in the event of reletting for any larger amount of rent which Lessor is able to procure for said unexpired portion of the initial term or any extended term. Lessor agrees, in such event, to make a good faith effort to procure another tenant for the unexpired portion of the term.

17. Lawful and Moral Purposes. Lessee covenants that the Premises shall, during the term of this Lease, be used only and exclusively for lawful and moral purposes, and no part of the Premises shall be used in any manner whatsoever for any purpose in violation of the laws of the United States or the State of Georgia or the ordinances and laws of the County in which the Premises is located. Lessee covenants that it shall save and hold Lessor harmless against any violations.

18. Subordination. Lessee agrees that this Lease shall be subordinate to any deeds to secure debt that may hereafter be placed upon the Premises, to any and all advances made or to be made under them, to the interest and all obligations secured by them and to all renewals, replacements and extensions of them.

19. Relationship of Parties. It is understood and agreed that the relationship of the parties hereto is strictly that of landlord and tenant and that Lessor

has no ownership in Lessee's enterprise and that this lease shall not be construed as a joint venture or partnership. Lessee is not and shall not be deemed to be an agent or representative of Lessor.

20. Quiet Possession. Lessor hereby covenants that if Lessee shall keep and perform all of the covenants of this Lease on the part of Lessee to be performed, Lessor will keep Lessee in the quiet and peaceful possession of the Premises.

21. Nuisance. Lessee agrees not to create or allow any nuisance to exist on the Premises and to abate any nuisance that may arise, promptly and free of expense to Lessor.

22. Waiver of Breach. It is hereby covenanted and agreed that no waiver of a breach of any of the covenants of this Lease shall be construed to be a waiver of any succeeding breach of the same or any other covenant.

23. Covenants Run with Land, Etc. It is hereby covenanted and agreed between the parties hereto that all covenants, conditions, agreements, and undertakings in this Lease shall be taken, deemed and treated as covenants running with the land and shall extend to and be binding on the respective successors and assigns of the respective parties hereto (including any sublessee of Lessee), the same as if they were in every case named and expressed.

24. Attorney's Fees. Lessee covenants and agrees to pay and to indemnify Lessor against all reasonable legal costs and charges, including counsel fees, lawfully and reasonably incurred in obtaining possession of the Premises after default by Lessee or upon default by Lessee in payment of any rent reserved herein.

Either Lessor or Lessee shall pay reasonable attorney's fees to the other party's attorney in the event it becomes necessary for the nondefaulting party to employ an attorney to force the defaulting party to comply with any of the other covenants, obligations or conditions imposed by this Lease on the respective parties. If a final court decision is to the effect that the party charged is not in violation or default, then, in that event, such party shall not be required to pay attorney's fees incurred by the charging party.

25. Holding Over. It is mutually understood and agreed that in the event lessee should hold over after the termination of this Lease, either by expiration of the term herein stated or otherwise, such holding over shall not be construed as a holding over from month to month, year to year, or term of years, or for a periodic term of any kind, but such holding over shall be from day to day and solely at the will of Lessor.

26. Notices. All notices to be given to either party by the other shall be by personal delivery, overnight recognized delivery service or by certified or registered mail, return receipt requested, whether or not it is specifically designated as such in this Lease and shall be deemed to be given, delivered or received when received if by personal delivery or overnight recognized delivery service, or when same are deposited in the United States mail, postage prepaid and properly addressed to the respective party if by certified or registered mail. All notices to be given to lessor shall be sent to the following addressed as follows:

Larry Joseph & Peter Savitz Partners
One Sportime Way
Atlanta, GA 30340

All notices to be given to Lessee shall be sent to the following addressed as follows:

Select Service & Supply Co., Inc.
One Sportime Way
Atlanta, GA 30340

27. Lessor's Self-Help. In the event Lessee shall fail at any time to perform any of its obligations hereunder, including without limitation, that of restoration, repairs, insurance and taxes, lessor shall have the right but not the obligation to make such payments and perform such action as Lessee shall have failed to pay or do, and all costs, together with interest at the rate of twelve (12%) percent per annum, shall be due and payable to Lessor, or its assigns, on the next rent payment due date.

28. Condemnation. In the event all of the Premises or such portion thereof as will make the Premises unsuitable for Lessee's operation shall be condemned by any legally constituted authority for any public use or purpose, then in either of said events, the term hereby granted shall cease, at the option of Lessee on thirty (30) days' written notice, from the time when possession thereof is taken by said public authority, and rental shall be accounted for as between Lessor and Lessee as of that date. Such termination, however, shall be without prejudice to the rights of either Lessor or Lessee, or both, to recover compensation and damage caused by condemnation from the condemnor. It is further understood and agreed that neither Lessee nor Lessor shall have any rights in any awards made to the other by a condemnation authority.

In the event less than all of the Premises are taken or condemned for a public or quasi-public use and the Premises not taken may be made reasonably suitable for Lessee's operation, this Lease will not terminate. Lessor shall, in such event, promptly commence and diligently complete the repair and restoration of the Premises so that upon completion, the Premises will constitute a complete architectural unit with an appearance, character and commercial value as nearly as possibly equal to the value of the Premises immediately prior to the taking; provided, however, Lessor shall have no obligation to make such repair and restoration if the estimated cost of such exceeds the condemnation proceeds received by Lessor.

Rent shall abate during any period of restoration after a condemnation in the event Lessee can not operate in the Premises during the restoration period.

29. Miscellaneous. The captions in this Lease are for convenience only and shall not in any way limit or be deemed to construe or interpret the terms and provisions hereof.

Time is of the essence of this Lease and of all provisions hereof, except in respect to the delivery of possession of the Premises at the commencement of the term hereof.

This Lease shall be construed and enforced in accordance with the laws of the State of Georgia.

This Lease may be executed in several counterparts, each of which shall be an original and all collectively shall constitute one lease.

30. Successors. All the terms, covenants and conditions hereof shall be binding upon and inure to the benefit of the heirs, executors, administrators, successors and assigns of the parties hereto, provided that nothing in this Section shall be deemed to permit any assignment, subletting, occupancy or use contrary to the provisions of Section 16.

IN WITNESS WHEREOF, Lessor has executed this Lease and Lessee has caused this Lease to be executed on its behalf and through its duly authorized officers, all as of the day and year first above written.

LESSOR:
SELECT SERVICE & SUPPLY CO., INC.

By: /s/ Peter Savitz

Its: Vice President

Attest: /s/ Peter Savitz

Its: Secretary

LESSEE:
LARRY JOSEPH AND PETER SAVITZ PARTNERS

By: /s/ Peter Savitz (SEAL)

Its: Partner

EXHIBIT "A"

LEGAL DESCRIPTION

SPORTIME PARCEL

All that tract or parcel of land lying and being in Land Lot 247, 6th District, Gwinnett County, Georgia and being more particularly described as follows:

To find the TRUE POINT OF BEGINNING, commence at 1" rod found on the southwesterly right-of-way line of Pleasantdale Road (25' from centerline): said point being located northwesterly a distance of 431.4 feet along said southwesterly right-of-way line from its point of intersection with the northwesterly right-of-way line of Pleasantdale Road (50'R/W): said intersection point being the northwest corner of a four-way street intersection where Pleasantdale Road Makes an abrupt angle of approximately 90 degrees; thence South 59 degrees 17 minutes 56 seconds West a distance of 13.51 feet to a point of the proposed right-of-way line of Pleasantdale Road (40.00 feet from centerline), said Point being the TRUE POINT OF BEGINNING; thence South 59 degrees 17 minutes 56 seconds West a distance of 289.38 feet to a 1/2" rebar found; thence South 59 degrees 46 minutes 24 seconds West a distance of 200.16 feet to a tie rod found; thence South 59 degrees 19 minutes 09 seconds West a distance of 25.38 feet of an

iron pin set; thence North 31 degrees 06 minutes 13 seconds West a distance of 434.00 feet to a iron pin set; thence North 59 degrees 30 minutes 20 seconds East a distance of 380.72 feet to an iron pin set; thence 10.39 feet along an arc of a curve to the right having a radius of 100.00 feet; said curve being subtended by a chord bearing and distance of North 62 degrees 29 minutes 00 seconds East 10.39 feet to an iron pin set; thence North 65 degrees 27 minutes 40 seconds East a distance of 101.62 feet to an iron pin set; thence 24.71 feet along an arc of a curve to the left having a radius of 40.00 feet;; said curve being subtended by a chord bearing and distance of North 47 degrees 45 minutes 49 seconds East 24.32 feet to an iron pin set on the proposed right-of-way line of Pleasantdale Road (80'R/W); thence along said right-of-way line South 30 degrees 58 minutes 13 seconds East a distance of 427.67 feet to the TRUE POINT OF BEGINNING, said tract containing 5.1200 acres of land in accordance with "As-Built Survey" for Sportime by Travis Pruitt & Associates; dated May 30, 1990; last revised June 18, 1990.

Attachment B

ENCUMBRANCES

Deed to Secure Debt and Security Agreement dated July 10, 1990 between Larry Joseph and Peter Savitz Partners and Wachovia Bank, N.A., successor by merger to Wachovia Bank of Georgia, N.A. (formerly known as The First National Bank of Atlanta)

Assignment of Leases and Rents dated July 10, 1990 from Larry Joseph and Peter Savitz Partners to Wachovia Bank, N.A., successor by merger to Wachovia Bank of Georgia, N.A. (formerly known as The First National Bank of Atlanta)

THIS FIRST AMENDMENT OF LEASE (this "Amendment") is made and entered into as of April 15, 1996, by and between LARRY JOSEPH AND PETER SAVITZ PARTNERS, a Georgia general partnership, as "Lessor", and SELECT SERVICE & SUPPLY CO., INC., a Georgia corporation, as "Lessee".

BACKGROUND STATEMENT

Lessor and Lessee are parties to that certain Lease Agreement dated July 1, 1990 (the "Lease") relating to certain premises originally containing 57,613 square feet located on One Sportime Way, Norcross, Gwinnett County, Georgia 30340 (the "Premises"). As a result of scrivener's errors, "Lessor" is identified on page 1 of the Lease as Select Service & Supply Co., Inc., in paragraph 26 of the Lease as Larry Joseph & Peter Savitz Partners, and on the signature page as Select Service & Supply Co., Inc., while "Lessee" is identified on page 1 of the Lease as Sportime, in paragraph 26 of the Lease as Select Service & Supply Co., Inc., and on the signature page as Larry Joseph & Peter Savitz Partners. Lessor has recently completed the construction of a 19,300 square foot addition (the "Addition") to the Premises and Lessee has agreed to lease the Addition. Lessor and Lessee have agreed to amend the Lease to correct the above described scrivener's errors and to include the Addition as part of the Premises and are entering into this Amendment to evidence their agreement.

basis."

6. Except as herein expressly modified or amended, all the terms and conditions of the Lease are hereby ratified, affirmed, and approved and remain in full force and effect, as of the date hereof. The parties have entered into this Amendment to clarify the rights and obligations of the parties hereto. This Amendment shall be binding upon and inure to the benefit of Lessor and Lessee and their respective successors and assigns, whether voluntary by act of the parties or involuntary by operation of law.

IN WITNESS WHEREOF the Lessor and Lessee have executed this Amendment under seal as of the day and year first above written.

LESSOR:

LARRY JOSEPH AND PETER SAVITZ
PARTNERS, a Georgia general partnership

By: /s/ Lawrence A. Joseph (SEAL)

Lawrence A. Joseph, General Partner

By: /s/ Peter S. Savitz (SEAL)

Peter S. Savitz, General Partner

SUBLEASE AGREEMENT

THIS SUBLEASE AGREEMENT (the "Sublease") is made and entered into this 7th day of January, 1998, by and between SELECT SERVICE & SUPPLY CO., INC., a Georgia corporation ("Sublessor"), and GENESIS DIRECT SIX, LLC, a Georgia limited liability company ("Sublessee").

R E C I T A L S

A. Larry Joseph and Peter Savitz Partners, a Georgia general partnership ("Master Lessor"), as lessor, and Sublessor, as lessee, are lessor and lessee respectively, under that certain Lease Agreement dated July 1, 1990 (the "Original Lease"), as amended by that certain First Amendment to Lease (the "First Amendment") dated April 15, 1996 (collectively, the "Master Lease"), as affected by that certain Subordination, Non-Disturbance and Attornment Agreement dated April 24, 1996 (the "Subordination Agreement", among Master Lessor, Sublessor and Wachovia Bank of Georgia, N.A. ("Lender"), and as further affected by that certain Estoppel Certificate dated April 15, 1996, (the "Estoppel Certificate") given by Sublessor in favor of Lender, as all of the foregoing may be amended from time to time, relating to certain unproved real property located at One Sportime Way, Norcross, Georgia 30340 (the "Premises"). A true, complete and correct copy of the Master Lease is attached to this Sublease as Exhibit A and, unless otherwise provided herein, is incorporated herein by this reference.

B. Sublessor desires to sublease to Sublessee, and Sublessee desires to sublease from Sublessor, the Premises, subject to the terms and conditions hereinafter set forth.

A G R E E M E N T

NOW, THEREFORE, in consideration of the sum of TEN

AND NO/100 DOLLARS (\$10.00) each to the other paid, the mutual covenants and agreements set forth herein, and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, Sublessor and Sublessee agree as follows.

1. Recitals Incorporated. The Recitals set forth above are hereby incorporated within and made an integral part of this Sublease.

2. Demise: Incorporation of Master Lease.

(a) Sublessor agrees to lease to Sublessee, and Sublessee agrees to lease from Sublessor, the Premises, subject to the terms and conditions of this Sublease.

(b) Subject to the provisions hereof, this Sublease shall be deemed to contain the same covenants, agreements, conditions, definitions, terms and provisions as are contained in the Master Lease, mutatis mutandis (the necessary changes being made to reflect the fact that the Sublessor shall be deemed "Lessor" and Sublessee shall be deemed "Lessee." Except as otherwise provided herein, Sublessee shall have all of the rights and assumes all of the obligations of Sublessor under the Master Lease with respect to the Premises; provided, however that any matter requiring the lessee under the Master Lease to procure the consent of the lessor

under the Master Lease shall require the consent of both Master Lessor and Sublessor (and the consent of Lender if Lender's consent is required under the Subordination Agreement or the Estoppel Certificate) notwithstanding the foregoing, the following provisions of the Master Lease are incorporated by reference into this Sublease: Sections 2, 3 and 26 of the Original Lease and Section 4 of the First Amendment.

(c) This Sublease is subject and subordinate to the Master Lease and to any amendment to the Master Lease hereafter made between Master Lessor and Sublessor, provided any such amendment will not materially adversely affect the use by Lessee of the Premises in accordance with this Sublease, materially increase the obligations of Sublessee or materially decrease its rights under this Sublease, alter the term, or increase the Rent (as defined herein) or additional rent required to be paid by Sublessor under the terms of the this Sublease. This Sublease shall automatically terminate, if it has not sooner expired or been terminated in accordance with the provisions hereof, on the expiration or earlier termination of the Master Lease, provided, however, any liability of Lessor to Lessee for termination caused by Lessor's default or vice versa shall not be discharged by reason of such termination. Sublessee agrees to comply fully at all times with the Master Lease, as though Sublessee is the lessee under the Master Lease, except that Sublessee shall not be required to comply with those provisions of the Master Lease which require Sublessor to make monetary payments of any type to the Master Lessor; provided, however, that Sublessee shall be required to make all payments to Sublessor required pursuant to this Sublease. Sublessee further acknowledges and agrees that any and all maintenance, services, utilities and similar matters and all insurance, indemnity and tax obligations, however designated, required to be provided or performed with respect to the Premises or otherwise pursuant to the Master Lease by or on behalf of the lessee under the

Master Lease (and, by incorporation herein, this Sublease) shall be performed or provided by or on behalf of the Sublessee, and Sublessor shall have no obligation with respect thereto or liability whatsoever with respect to Sublessor's or Master Lessor's failure to perform or provide same.

3. Term. The term of this Sublease will commence as of the date hereof (the "Commencement Date") and continue until and expire on the date which is one (1) year from the Commencement Date (the "Termination Date").

4. Rent: Additional Rent.

(a) Sublessee covenants and agrees to pay to Sublessor as Rent for the Premises during the term of this Sublease an amount equal to the Rent payable by Sublessor to Master Lessor under the Master Lease, payable in equal monthly installments, in advance, on the first day of each and every month during the term of this Sublease, without notice, demand, offset, or counterclaim. The parties acknowledge and agree that Sublessor shall as of the Commencement Date hereof tender to Sublessee all portions of the Premises. Sublessee and Sublessor agree that the rent payable during the term of this Sublease is \$315,343.30 per annum, payable in installments of \$26,278.61 per month (the "Rent").

(b) Sublessee further covenants and agrees to pay to Sublessor, as additional rent, without notice, demand, offset, or counterclaim, any and all payments owing with regard to operating and maintenance expenses, real estate taxes, and other costs or sums to the extent payable by Sublessor under the Master Lease with respect to or attributable to the Premises. Any

and all statements, billings and calculations of such amounts as prepared or submitted by or on behalf of Master Lessor shall be binding upon Sublessee to the extent Sublessor is bound under the Master Lease. All payments shall be due within 15 days of each invoice therefore by Sublessor (which invoice should be accompanied by the corresponding invoice from Master Lessor to Sublessor for such amount). It is the intention of the parties to this Sublease that all charges with respect to or attributable to the Premises or Sublessee's use or occupancy of same shall be passed through to Sublessee, and Sublessee covenants and agrees to pay same to Sublessor accordingly. Sublessee's obligations hereunder shall survive the expiration or earlier termination of this Sublease.

(c) Sublessee shall pay interest at the rate of twelve percent (12%) per annum on each payment of Rent and additional rent received by Sublessor more than five (5) business days after such payment is due, accrued from the end of such 5 day period to the date such payment is made by Sublessee. Rent and additional rent shall be paid at Sublessor's notice address as set forth below. If the term of this Sublease begins on a day other than the first day of a month or ends on a day other than the last day of a month, Base Rent and additional rent will be prorated on a per them basis.

5. Premises "As-Is"; No Representations, Warranties or Obligations. Sublessee accepts the Premises in their "as-is" condition as of the date hereof and Sublessee acknowledges that no representations or warranties, either express or implied, have been made by or on behalf of Sublessor with respect to the condition of the Premises. Any

provision of the Master Lease or of this Sublease to the contrary notwithstanding, Sublessor shall have no obligation to perform any construction, improvement, build-out, repair, maintenance or other work with respect to the Premises or for the benefit of Sublessee.

6. Intentionally Deleted.

7. Assignment and Subletting. Any provision of this Sublease or of the Master Lease to the contrary notwithstanding, Sublessee shall not assign this Sublease, or any rights hereunder, or further sublet all or any portion of the Premises, or permit the use of the Premises by any party other than Sublessee, whether voluntarily, by operation of law or otherwise, without the prior written consent of Sublessor, Master Lessor and Lender (if such consent of Lender is required under the Subordination Agreement or Estoppel Certificate). No consent to any assignment or subletting shall release Sublessee of its liability hereunder.

8. Use: Compliance with Law. The Premises will be used solely for the use set forth in Section 17 of the Master Lease and for no other purpose. Sublessee covenants and agrees (i) not to use the premises for any illegal purpose or in such a manner as to violate any applicable and valid law,, rule or regulation of any governmental body, and (ii) not to permit waste thereon.

9. Default and Remedies. If Sublessee fails to perform or fulfill any of the terms, covenants, obligations or agreements set forth in this Sublease, including without limitation, complying with all of the applicable terms, covenants, obligations and agreements in the Master Lease, Sublessor shall have and may exercise any of the rights and remedies of lessor set forth in the Master Lease, and Sublessee shall be and remain liable to Sublessor to the extent provided

therein, in addition to all other rights and remedies available at law or in equity. Notwithstanding anything to the contrary contained herein or provided in the Master Lease, any grace, cure, or notice period provided for the benefit of lessee in the Master Lease shall be reduced by one-third (1/3) with regard to Sublessee (e.g., Sublessee would have twenty days to cure if the lessee would otherwise have thirty days to cure).

10. Indemnity. Sublessee shall indemnify, defend and save Sublessor and Master Lessor harmless from and against all claims, actions, damages, losses, costs, liability and expenses (including reasonably attorneys' fees and costs of litigation) resulting from Sublessee's failure to comply with the terms and provisions of this Sublease (including, without limitation, the provisions of the Master Lease to the extent such provisions are incorporated herein) or from the occupancy or use by Sublessee or its agents, servants, contractors or employees of the Premises or any portion of the Property, or occasioned wholly or in part by any act or omission of Sublessee, its agents, servants, contractors, employees or by any act or omission of Sublessee's licensees, invitees or guests, This Section 10 and Sublessee's obligations hereunder shall survive the expiration or termination of this Sublease for up to one (1) year after such expiration or termination other than for third party claims which shall survive for the applicable statute of limitations.

11. Insurance and Related Matters. Without limiting the other provisions of this Sublease, Sublessee acknowledges and agrees that at all times during the term hereof Sublessee shall be required to carry and maintain such insurance as may be required by, and otherwise to comply in all respects with, the insurance provisions of the Master Lease. Sublessee further agrees that all such insurance shall name Sublessor, Master Lessor and any other persons required by the Master Lease as additional named insureds and any casualty or similar insurance shall insure Master Lessor, Sublessor, and Sublessee, as their interests appear. Sublessee further agrees that the waiver of subrogation and release provisions set forth in the Master Lease and made by lessee therein, as incorporated herein, shall be made by Sublessee for the benefit of both Sublessor and Master Lessor.

12. Casualty and Condemnation. The parties agree that this Sublease shall automatically terminate as a result of any termination of the Master Lease pursuant to the casualty or condemnation provisions of the Master Lease as incorporated herein and Rent shall be apportioned as of said termination date, and Sublessee acknowledges that it has and shall have no interest in any Condemnation award payable with regard to the Master Lease, this Sublease or the Premises provided that Sublessee shall have the right to file a claim for trade fixtures paid by Sublessee (and not reimbursed by Sublessor) and for moving expenses, so long as neither such application nor any award thereunder shall reduce in any manner any award otherwise available to Sublessor or Master Lessor.

13. Sublessee shall, on or before the last day of the term hereof, or upon the earlier termination of this Sublease, peaceably and quietly leave, surrender, and yield to Sublessor the Premises, together with all alterations, additions, and improvements (other than Sublessee's personal property and except as otherwise provided in this Section 13) in good order, condition and repair (or in the same condition and repair as the date hereof with respect to those alterations, additions and improvements at the Premises as of the date hereof), ordinary wear and tear, damage by casualty and taking by condemnation that results in a termination of the Master Lease

excepted. All items of Sublessee's personal property shall be removed by Sublessee on or before the last day of the Sublease term or such earlier termination, and Sublessee shall promptly repair (at Sublessee's sole expense) any and all damage to the Premises resulting from the removal of such items of Sublessee's personal property. All alterations, additions and improvements made by Sublessee to the Premises shall, at the option of Sublessor (i) become the property of Sublessor without any compensation to Sublessee and shall be surrendered at such time as a part of the Premises, or (ii) be removed by Sublessee on or before the last day of the Sublease term or such earlier termination, and Sublessee shall promptly repair (at Sublessee's sole expense) any and all damage to the Premises resulting from the removal of such alterations, additions and improvements.

14. Holding Over. In the event Sublessee remains in possession of the Premises after expiration of this Sublease, Sublessee shall not acquire any right, title, or interest in or to the Premises. In such event, Sublessee shall occupy the Premises as a tenant at

sufferance, but shall otherwise be subject to all of the conditions, provisions, and obligations of this Sublease, except that Rent shall be equal to one hundred fifty (150%) percent of the Rent payable hereunder.

15. Brokers. Sublessor and Sublessee hereby agree that in connection with this Sublease that neither have dealt with any broker or person or entity entitled to any brokerage commission, fee or other compensation. Sublessee and Sublessor shall each indemnify, protect, defend, and hold harmless the other, and its agents and legal representatives, against any fee, commission, or other compensation due to any person, firm, corporation claiming to have acted in the indemnifying party's behalf with respect to this Sublease or the transaction represented hereby.

16. Notices. All notices, consents, approvals and requests required or permitted under this Sublease shall be given in writing and shall be effective for all purposes if hand delivered or sent by (i) certified or registered United States mail, postage prepaid, or (ii) expedited prepaid delivery service, either commercial or United States Postal Service, with proof of attempted delivery, addressed as follows, or at such other address and person as shall be designated from time to time in a written notice to the other party in the manner provided for in this Section 16:

If to Sublessor: Select Service & Supply Co., Inc.
 One Sportime Way
 Atlanta, Georgia 30340

If to Sublessee: Genesis Direct Six, LLC
 c/o Genesis Direct Six, Inc.
 100 Plaza Drive Secaucus,
 New Jersey 07094
 Attn: Barry Curtis

A notice shall be deemed to have been given pursuant to this Sublease: in the case of hand delivery, at the time of delivery, in the case of registered or certified mail, upon deposit in the United States mail; or in the case of expedited prepaid delivery, upon deposit with such expedited delivery service.

17. Capitalized Terms. Capitalized terms utilized in this Sublease and not defined herein shall have the meanings attributed to such terms in the Master Lease.

18. Alterations. Sublessee shall not make any alterations or improvements to the Premises without the prior written approval of Sublessor and Master Lessor (provided that Master Lessor's consent is required under the Master Lease). Sublessee hereby agrees that it shall indemnify, defend and hold Sublessor harmless from and against any and all liabilities, obligations, damages, penalties, claims costs, charges and expenses, including without limitation, reasonable attorneys' fees and other professional fees (if and to the extent permitted by law), which may be imposed upon, incurred by, or asserted against Sublessor or Master Lessor or their respective directors, officers, partners, members, agents, representatives or employees, and arising directly or indirectly out of or in connection with the performance of any construction or alterations by Sublessee in the Premises including, without limitation, the cost of correcting any violations of any laws, rules, regulations and codes, To the extent that any alterations or improvements are permitted, Sublessee will comply with all applicable terms and

provisions of the Master Lease.

19. No Options. Any other provision of this Sublease or of the Master Lease to the contrary notwithstanding, Sublessee shall not be granted hereby or by the Master Lease, nor shall Sublessee have the benefit of, any option or other right, however designated (i) to renew the Master Lease or this Sublease, or (ii) to terminate the Master Lease, or (iii) to extend the term of the Master Lease or this Sublease, or (iv) to expand or contract the Premises, or (v) to lease or sublease any other space in the property of which the Premises may be a part, or in any other property, or (vi) to purchase all or any portion of the Premises or any other property, or (vii) to exercise any audit rights under the Master Lease. Any and a such rights shall be deemed to have been reserved to and exercisable only by Sublessor.

20. Consent of Master Lessor and Lender. This Sublease shall not be effective unless and until the written consent to this Sublease is granted by both Master Lessor and Lender (to the extent such Lender's consent is required under the Subordination Agreement or the Estoppel Certificate). Sublessor hereby represents to Sublessee that Sublessor has not entered into any other sublease with respect to the Premises and this representation shall be deemed repeated and in compliance by Sublessor as of the Commencement Date.

21. Miscellaneous.

(a) This Sublease contains the entire agreement of the parties with respect to the subject matter hereof, and no representations, inducements, promises or agreements between or among such parties, whether oral or otherwise, with respect to the subject matter hereof not embodied herein shall be of any force or effect.

(b) The failure of either party to insist on one or more instances, on performance by the other party in strict compliance with the terms and conditions of this Sublease shall not be deemed a waiver or relinquishment of any rights granted hereunder or of any terms or conditions of this Sublease unless such waiver is contained in writing and signed by both parties. No amendment to this Sublease shall be binding upon the parties hereto unless such amendment is in writing and executed by all parties hereto.

(c) Time is of the essence of this Sublease.

(d) Sublessee's interest hereunder is not subject to levy, execution or sale and is not assignable except with Sublessor's, Master Lessor's and Lender's prior written consent.

(e) This Sublease shall be governed by and construed in accordance the with the laws of the State of Georgia (without regard to the rules of such jurisdiction concerning conflict of laws) and any applicable law of the United States of America, as amended from time to time.

(f) Neither this Sublease nor any short form or memorandum hereof shall be recorded.

(g) Sublessor's obligations and liability to Sublessee with respect to this Sublease shall be limited solely to Sublessor's interest in the Premises, and Sublessee shall look solely to Sublessor's interest

in the Premises for satisfaction of Sublessee's remedies. Without expanding by implication any limitations on liability otherwise provided by law, it is agreed by Sublessee that neither Sublessor nor any person or entity comprising Sublessor, nor any partner, officer, director or shareholder of Sublessor or any partner of Sublessor, shall have any personal liability with respect to this Sublease.

(h) The section captions contained in this Sublease are for convenience only and do not in any way limit or amplify any term or provision hereof. The use of the terms "hereof," "hereunder" and "herein" shall refer to this Sublease as a whole, inclusive of the Exhibits, except when noted otherwise. The use of the masculine, feminine or neuter genders herein shall include the masculine, feminine and neuter genders and the singular form shall include the plural when the context so requires.

(i) All covenants, promises, conditions, representations, and agreements herein contained shall be binding upon, apply, and inure to the parties hereto and their respective heirs, executors, administrators, successors, and permitted assigns.

(j) This Sublease may be executed in several counterparts, each of which shall be an original and all of which collectively shall constitute one Sublease.

[SIGNATURES COMMENCE ON FOLLOWING PAGE]

IN WITNESS WHEREOF, the parties hereto have duly executed and delivered this Sublease Agreement under seal as of the day and year first above written.

SUBLESSEE:

GENESIS DIRECT SIX, LLC,
a Georgia limited liability company

By: /s/ [original text illegible]

Its: President

[SEAL]

[SIGNATURES CONTINUED ON FOLLOWING PAGE]

SUBLESSOR:

SELECT SERVICE & SUPPLY CO.,
a Georgia corporation

By: /s/ Peter S. Savitz

Its: Executive Vice President

[CORPORATE SEAL]

AMENDMENT TO SUBLEASE AGREEMENT

This AMENDMENT TO SUBLEASE AGREEMENT (the "Amendment") is made and entered into this 17th day of November 1998, by and between 3-S PARTNERS, INC., f/k/a Select Service & Supply Co., Inc., a Georgia corporation ("Sublessor"), and GENESIS DIRECT SIX, LLC, a Georgia limited liability company ("Sublessee").

R E C I T A L S

A. Sublessor and Sublessee are parties to a certain Sublease Agreement dated January 7, 1998 (the "Sublease"), relating to certain improved real property located at One Sportime Way, Norcross, Georgia 30340 (the "Premises").

B. Sublessor and Sublessee desire to amend the Sublease in certain respects, as hereinafter set forth.

A G R E E M E N T

NOW, THEREFORE, in consideration of the sum of TEN AND NO/100 DOLLARS (\$10.00) each to the other paid, the mutual covenants and agreements set forth herein, and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, Sublessor and Sublessee agree as follows:

1. Recitals Incorporated. The Recitals set forth above are hereby incorporated within and made an integral part of this Sublease.

2. Extension of Time.

(a) Subject to the terms and conditions set forth herein, the term of the Sublease is hereby amended and extended for an additional period of three (3) years commencing upon the Termination Date described in the Sublease (the "Extended Term"). The date on which the Extended Term commences is sometimes referred to in this Amendment as the "Extension Date". The expiration date of the Extended Term shall hereafter be for all purposes the "Termination Date" of the Sublease, unless the Sublease is earlier terminated as set forth in Section 2(b) below.

(b) The foregoing provisions of Section 2(a) notwithstanding, commencing on the date which is six (6) months from and after the Extension Date, Sublessor shall have the right to terminate the Sublease, as amended hereby, upon not less than six (6) months' prior written notice to Sublessee, specifying the date upon which such termination shall be effective (the "Early Termination Date"). Sublessee shall thereafter continue to be obligated to perform all obligations of Sublessee under the Sublease, as amended hereby, through and including the Early Termination Date, and the Sublease, as amended hereby, shall thereupon terminate upon the Early Termination Date, as if the Early Termination Date were the date of the natural expiration of the term of the Sublease, as amended hereby.

(c) Rent payable under Section 4(a) of the Sublease during and with respect to the Extended Term is hereby amended and shall be in the amount of \$331,100.00 per annum, payable in installments of \$27,592.50 per month, which Sublessee covenants and agrees to pay to Sublessor. Sublessee shall continue to be obligated to pay all other amounts

payable under the Sublease including, without limitation, the additional rent described in Section 4(b) thereof.

3. Capitalized Terms. Capitalized terms utilized in this Amendment and not defined herein shall have the meanings attributed to such terms in the Sublease.

4. Miscellaneous.

(a) All terms, conditions and provisions of the Sublease not expressly modified or amended hereby shall be and remain in full force and effect.

(b) This Sublease may be executed in several counterparts, each of which shall be an original and all of which collectively shall constitute one Sublease.

IN WITNESS WHEREOF, the parties hereto have duly executed and delivered this Amendment under seal as of the day and year first above written.

SUBLESSEE:

GENESIS DIRECT SIX, LLC,
a Georgia limited liability company

By: /s/ Warren Struhl

Its: Chief Executive Officer

SUBLESSOR:

3-S PARTNERS INC., f/k/a Select Service & Supply
Co., Inc., a Georgia corporation

By: /s/ Peter S. Savitz

Its: Partner

[CORPORATE SEAL]

CONSENT TO AMENDMENT TO SUBLEASE

February 1, 1999

Larry Joseph and Peter Savitz Partners, a Georgia general partnership, as lessor ("Lessor") under that certain Lease Agreement dated July 1, 1990, as amended by that certain First Amendment to Lease dated April 15, 1996 (the "Lease"), between Lessor and 3-S Partners, Inc., f/k/a Select Service & Supply Co., Inc., a Georgia corporation, as lessee ("Lessee"), covering certain premises located at One Sportime Way, Norcross, Georgia 30340 (the "Premises"), hereby consents to the Amendment No. 2 Sublease of the Premises by Lessee to Sportime, LLC Sublease f/k/a Genesis Direct Six, LLC, a Georgia limited liability company ("Sublease"), in the manner described in the Amendment No. 2 to the Sublease Agreement between Lessee and Sublessee dated February, 1999, a copy of which is attached hereto. The consent granted hereby shall not be deemed to be: (i) consent to any modification or alteration of the Lease, (ii) consent to any present, further or subsequent assignment of the Lease, (iii) consent to any further or subsequent

subletting of all or any portion of the Premises, or (iv) a waiver of any liability, covenant or obligation of Lessee under the Lease. Further, the consent granted by Lessor herein is expressly subject to and conditioned upon the consent of any lender of Lessor to the Amendment No. 2 which may be required by any agreements between Lessor and any such lender. Lessee shall remain fully liable to Lessor for all of Lessee's liabilities, covenants and obligations under the Lease unless specifically released therefrom by Lessor in writing. The acceptance by Lessor of rent, additional rent or any other payment under the Lease from Sublease or any third party shall not be deemed a waiver by Lessor of the obligation of Lessee to pay all such amounts as provided in the Lease. The performance by Sublessee or any third party of any obligation required of Lessee under the Lease shall not be deemed a waiver by Lessor of the duty of Lessee to perform such obligation.

LARRY JOSEPH AND PETER SAVITZ PARTNERS, a Georgia general partnership

By: /s/ Peter S. Savitz

Name/Title:

Form of Amendment to Sublease

AMENDMENT NO. 2 TO SUBLEASE AGREEMENT

AMENDMENT NO. 2 ("Amendment No. 3") dated as of February 1, 1999 to the Sublease Agreement dated as of January 7, 1998, as amended on November 17, 1998 ("Amendment No. 1") among 3-S Partners Inc., f/k/a Select Service & Supply Co., Inc. ("Sublessor") and Sportime, LLC, f/k/a Genesis Direct Six, LLC ("Sublessee"). The Sublease Agreement, as amended by Amendment No. 1, is hereinafter referred to as the Sublease.

WHEREAS, Sublessor and Sublessee are parties to the Sublease relating to certain improved real property located at One Sportime Way, Norcross, Georgia 30340.

WHEREAS, the parties to the Sublease desire to amend the Sublease as set forth herein.

NOW, THEREFORE, for good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, and in consideration of the agreements herein, the parties hereto agree as follows:

1. Amendment to Sublease.

- a. The first sentence of Section 2(b) of Amendment No. 1 is hereby amended in its entirety as follows:

"The foregoing provisions of Section 2(a) the contrary notwithstanding, commencing on the date which is six months from and after the Extension Date, Sublessee shall have the right to terminate the Sublease, as amended hereby, upon not less than six (6) months' prior written notice to Sublessor specifying the date upon which such termination shall be effective (the "Early Termination Date")."

b. Section 16 of the Sublease is hereby amended by deleting the address for Sublessee and replacing such address with the following:

Sportime, LLC
c/o School Specialty, Inc.
1000 North Bluemound Drive
Appleton, WI 54914

2. Consent to Transaction. Sublessor hereby consents to the acquisition of all of the outstanding limited liability interests of Sublessee by School Specialty, Inc. Sublessor agrees that such transaction does not constitute a violation of Section 7 of the Sublease entitled "Assignment and Subletting."

3. Miscellaneous.

a. All terms, conditions and provisions of the Sublease not expressly modified or amended hereby shall be and remain in full force and effect.

b. This Sublease may be executed in several counterparts, each of which shall be an original and all of which shall collectively shall constitute one Sublease.

IN WITNESS WHEREOF, the undersigned have executed this Amendment No. 2 as of the date first written above.

SUBLESSEE:
SPORTIME, LLC
(f/k/a Genesis Direct Six, LLC)

By: /s/ Warren Struhl

Name: Warren Struhl
Title: President and Chief Executive Officer

SUBLESSOR:
3-S PARTNERS INC.
(f/k/a Select Service & Supply Co., Inc.)

By: /s/ Peter S. Savitz

Name: Peter S. Savitz
Title: Executive Vice President

EXHIBIT 21.1

SUBSIDIARIES OF THE REGISTRANT

NAME	STATE OR OTHER JURISDICTION OF INCORPORATION OR ORGANIZATION
1. ClassroomDirect.com, LLC	Delaware
2. Childcraft Education Corp.	New York
3. Bird-in-Hand Woodworks, Inc.	New Jersey
4. Don Gresswell, Ltd.	United Kingdom
5. Sportime Acquisition Inc.	Delaware
6. Sportime, LLC	Delaware
7. SSI Acquisition Subsidiary, Inc.	Delaware
8. Global Video, LLC	Arizona
9. JuneBox.com, Inc.	Wisconsin

EXHIBIT 23.1

CONSENT OF INDEPENDENT ACCOUNTANTS

We hereby consent to the incorporation by reference in the Registration Statements on Form S-8 (No. 333-64193) and Form S-4 (No. 333-90597) of School Specialty, Inc. of our report dated June 9, 2000, relating to the financial statements and financial statement schedule, which appears in this Form 10-K.

/s/ PricewaterhouseCoopers LLP

PRICEWATERHOUSECOOPERS LLP

Minneapolis, Minnesota
July 26, 2000

<ARTICLE>

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This schedule contains summary financial information extracted from the audited consolidated financial statements of the Company included in the Report on Form 10-Q and is qualified in its entirety by reference to such financial statements.

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School Specialty, Inc.
Valuation and Qualifying Accounts
The Fiscal Years Ended April 25, 1998, April 24, 1999 and April 29, 2000

Description	Date	Balance at Beginning of Period	Charged to Costs and Expenses	Charged to Other Accounts	Deductions	Date	Balance at End of Period
Allowance for doubtful accounts	April 27, 1997	471,000	274,000	293,000 (a)	(322,000) (b)	April 25, 1998	716,000
	April 25, 1998	716,000	266,000	1,579,000 (a)	(327,000) (b)	April 24, 1999	2,234,000
	April 24, 1999	2,234,000	171,000	200,000 (a)	(861,000) (b)	April 29, 2000	1,744,000
Accumulated amortization of intangibles	April 27, 1997	3,324,000	2,061,000		(24,000) (c)	April 25, 1998	5,361,000
	April 25, 1998	5,361,000	4,656,000		(119,000) (c)	April 24, 1999	9,898,000
	April 24, 1999	9,898,000	6,895,000		(947,000) (c)	April 29, 2000	15,846,000

-
- (a) Allowance for doubtful accounts acquired in purchase acquisitions.
(b) Represents (write-offs) / recoveries of uncollectable accounts receivable.
(c) Represents (write-offs) / recoveries of fully amortized intangible assets.