

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

FORM 10-Q

- QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE QUARTERLY PERIOD ENDED OCTOBER 23, 1999.
- TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE TRANSITION PERIOD FROM _____ TO _____

Commission File Number: 000-24385

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

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

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

54911
(Zip Code)

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

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

Yes No

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

Class	Outstanding at November 30, 1999
----- Common Stock, \$0.001 par value	----- 17,433,426

SCHOOL SPECIALTY, INC.

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FOR THE QUARTERLY PERIOD ENDED OCTOBER 23, 1999

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PART I - FINANCIAL INFORMATION

Item 1. Financial Statements

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

	October 23, 1999 (unaudited)	April 24, 1999
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 6,241	\$ 9,779
Accounts receivable, less allowance for doubtful accounts of \$1,998 and \$2,234, respectively	170,883	74,781
Inventories	53,105	78,783
Deferred taxes	8,371	8,371
Prepaid expenses and other current assets	14,934	18,673
	-----	-----
Total current assets	253,534	190,387
Property and equipment, net	47,131	42,305
Intangible assets, net	200,628	201,206
Deferred taxes and other	4,121	3,810
	-----	-----
Total assets	\$505,414	\$437,708
	=====	=====
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Current portion - long term debt	\$ 11,646	\$ 11,594
Accounts payable	41,306	37,050
Accrued compensation	11,973	8,410
Accrued income taxes	13,824	4,193
Accrued restructuring	1,578	2,752
Other accrued liabilities	11,531	9,194
	-----	-----
Total current liabilities	91,858	73,193
Long term debt	183,805	161,691
Other	210	137
	-----	-----
Total liabilities	275,873	235,021
Stockholders' equity:		
Preferred stock, \$0.001 par value per share, 1,000,000 shares authorized; none outstanding	-	-
Common stock, \$0.001 par value per share, 150,000,000 shares authorized and 17,433,426 and 17,229,197 shares issued and outstanding, respectively	17	17
Capital paid-in excess of par value	195,509	192,196
Accumulated other comprehensive loss	(12)	(5)
Retained earnings	34,027	10,479

Total stockholders' equity	----- 229,541 -----	----- 202,687 -----
Total liabilities and stockholders' equity	=====	=====
	\$505,414	\$437,708

See accompanying notes to consolidated financial statements.

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

	Three Months Ended		Six Months Ended	
	October 23, 1999	October 24, 1998	October 23, 1999	October 24, 1998
Revenues	\$231,588	\$212,316	\$425,887	\$338,973
Cost of revenues	148,675	141,555	270,095	224,170
	-----	-----	-----	-----
Gross profit	82,913	70,761	155,792	114,803
Selling, general and administrative expenses	56,212	47,887	104,527	77,529
Restructuring costs	-	4,200	-	5,274
	-----	-----	-----	-----
Operating income	26,701	18,674	51,265	32,000
Other income (expense):				
Interest expense	(3,695)	(3,858)	(6,863)	(5,063)
Interest income	33	45	71	77
Other	(17)	-	(11)	-
	-----	-----	-----	-----
Income before provision for income taxes	23,022	14,861	44,462	27,014
Provision for income taxes	10,838	7,431	20,914	13,021
	-----	-----	-----	-----
Net income	\$ 12,184	\$ 7,430	\$ 23,548	\$ 13,993
	=====	=====	=====	=====
Weighted average shares outstanding:				
Basic	17,433	14,573	17,408	14,651
Diluted	17,438	14,573	17,423	14,710
Net income per share:				
Basic	\$ 0.70	\$ 0.51	\$ 1.35	\$ 0.96
Diluted	\$ 0.70	\$ 0.51	\$ 1.35	\$ 0.95

See accompanying notes to consolidated financial statements.

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

	For the Six Months Ended	
	October 23, 1999	October 24, 1998
Cash flows from operating activities:		
Net income	\$ 23,548	\$ 13,993
Adjustments to reconcile net income to net cash used in operating activities:		
Depreciation and amortization expense	6,259	4,041
Restructuring costs	-	5,274
Deferred taxes	(311)	-
Amortization of loan fees	379	230
Change in current assets and liabilities (net of assets acquired and liabilities assumed in business combinations accounted for under the purchase method):		
Accounts receivable	(94,086)	(66,923)

Inventory	27,310	21,914
Prepaid expenses and other current assets	2,768	4,598
Accounts payable	3,419	(16,386)
Accrued liabilities	13,417	16,813
	-----	-----
Net cash used in operating activities	(17,297)	(16,446)
	-----	-----
Cash flows from investing activities:		
Cash paid in acquisitions, net of cash received	(1,085)	(95,030)
Additions to property and equipment	(7,784)	(1,870)
Other	(878)	575
	-----	-----
Net cash used in investing activities	(9,747)	(96,325)
	-----	-----
Cash flows from financing activities:		
Proceeds from issuance of common stock	2,225	32,735
Proceeds from bank borrowings	115,900	290,700
Repayment of bank debt and capital leases	(94,619)	(132,823)
Repayment of amounts due to U.S. Office Products	-	(82,976)
Capital contribution by U.S. Office Products	-	8,095
Capitalized loan fees	-	(2,960)
	-----	-----
Net cash provided by financing activities	23,506	112,771
	-----	-----
Net decrease in cash and cash equivalents	(3,538)	-
Cash and cash equivalents, beginning of period	9,779	-
	-----	-----
Cash and cash equivalents, end of period	\$ 6,241	\$ -
	=====	=====

See accompanying notes to consolidated financial statements.

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

The Company issued common stock and cash in connection with certain business combinations accounted for under the purchase method of accounting in the six months ended October 23, 1999, and October 24, 1998. The fair values of the assets and liabilities of the acquired companies at the dates of the acquisitions are presented as follows:

	For the Six Months Ended	
	October 23, 1999	October 24, 1998
Accounts receivable	\$ 2,016	\$ 44,153
Inventories	632	24,701
Prepaid expenses and other current assets	46	3,251
Property and equipment	85	17,312
Intangible assets	1,700	85,312
Other assets	13	7,223
Accounts payable	(837)	(23,621)
Accrued liabilities	(597)	(6,303)
Long-term debt	(885)	(56,998)
	-----	-----
Net assets acquired	\$ 2,173	\$ 95,030
	=====	=====
Acquisitions were funded as follows:		
Common stock	\$ 1,088	-
Cash paid, net of cash acquired	1,085	95,030
	-----	-----
Total	\$ 2,173	\$ 95,030
	=====	=====

See accompanying notes to consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)
(In thousands, except per share amounts)

NOTE 1-BASIS OF PRESENTATION

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

NOTE 2-STOCKHOLDERS' EQUITY

Changes in stockholders' equity during the six months ended October 23, 1999, were as follows:

Stockholders' equity balance at April 24, 1999	\$202,687
Issuance of common stock	3,313
Net income	23,548
Cumulative translation adjustment	(7)

Stockholders' equity balance at October 23, 1999	\$229,541
	=====

On May 17, 1999, the underwriters of the Company's secondary offering, which occurred on April 16, 1999, exercised their over allotment option for 151 shares of Common Stock for net proceeds of approximately \$2,225. The Company issued 53 shares of Common Stock, valued at approximately \$1,088, as part of the acquisition of Audio Graphics, which occurred during the quarter ended July 24, 1999.

NOTE 3-EARNINGS PER SHARE

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

	Income (Numerator)	Share (Denominator)	Per Share Amount
Three months ended October 23, 1999:			
Basic EPS	\$ 12,184	\$ 17,433	\$ 0.70
Effect of dilutive employee stock options	-	5	=====
	-----	-----	
Diluted EPS	\$ 12,184	\$ 17,438	\$ 0.70
	=====	=====	=====
Three months ended October 24, 1998:			
Basic EPS	\$ 7,430	\$ 14,573	\$ 0.51
Effect of dilutive employee stock options	-	-	=====
	-----	-----	
Diluted EPS	\$ 7,430	\$ 14,573	\$ 0.51
	=====	=====	=====
Six months ended October 23, 1999:			
Basic EPS	\$ 23,548	\$ 17,408	\$ 1.35
Effect of dilutive employee stock options	-	15	=====
	-----	-----	
Diluted EPS	\$ 23,548	\$ 17,423	\$ 1.35
	=====	=====	=====
Six months ended October 24, 1998:			
Basic EPS	\$ 13,993	\$ 14,651	\$ 0.96
Effect of dilutive employee stock options	-	59	=====
	-----	-----	
Diluted EPS	\$ 13,993	\$ 14,710	\$ 0.95

===== ===== =====

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.

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

NOTE 4-ACCOUNTING PRONOUNCEMENT

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

NOTE 5-BUSINESS COMBINATIONS

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

In the first three months of fiscal 2000, the Company made one insignificant acquisition, which was accounted for under the purchase method of accounting, for an aggregate purchase price of \$2,177, resulting in goodwill of \$1,700, which will be amortized over 40 years. The results of this acquisition have been included in the Company's results from the respective date of acquisition.

The following presents the unaudited pro forma results of operations of the Company for the three and six month periods ended October 23, 1999 and October 24, 1998, and includes the Company's unaudited consolidated financial statements, which give retroactive effect to the acquisitions as if all such purchase acquisitions had been made at the beginning of fiscal 1999. The results presented below include certain pro forma adjustments to reflect the amortization of intangible assets, adjustments to interest expense, and the inclusion of a federal income tax provision on all earnings for the periods ended October 23, 1999 and October 24, 1998, respectively:

	Three Months Ended		Six Months Ended	
	October 23, 1999	October 24, 1998	October 23, 1999	October 24, 1998
Revenues	\$231,588	\$230,035	\$425,887	\$429,961
Net income	12,184	7,301	23,541	15,132
Net income per share:				
Basic and diluted	\$ 0.70	\$ 0.49	\$ 1.35	\$ 1.01

The unaudited pro forma results of operations are prepared for comparative purposes only and do not necessarily reflect the results that would have occurred had the acquisitions occurred at the beginning of fiscal 1999 or the results that may occur in the future.

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

NOTE 6-SEGMENT INFORMATION

The Company's business activities are organized around its two principal business segments, Traditional and Specialty. 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 two 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, school forms and educational software) and 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 following table presents segment information:

	Three Months Ended		Six Months Ended	
	October 23, 1999	October 24, 1998	October 23, 1999	October 24, 1998
Revenues:				
Traditional	\$148,119	\$149,640	\$269,358	\$233,203
Specialty	83,469	62,676	156,529	105,770
	-----	-----	-----	-----
Total	\$231,588	\$212,316	\$425,887	\$338,973
	=====	=====	=====	=====
Operating Profit and Pretax Profit				
Traditional	\$ 17,236	\$ 15,215	\$ 33,456	\$ 24,568
Specialty	12,508	9,321	23,987	15,751
	-----	-----	-----	-----
Total	29,744	24,536	57,443	40,319
General Corporate Expense	3,043	1,662	6,178	3,045
One Time Charges	-	4,200	-	5,274
Interest Expense and Other	3,679	3,813	6,803	4,986
	-----	-----	-----	-----
Income Before Taxes	\$ 23,022	\$ 14,861	\$ 44,462	\$ 27,014
	=====	=====	=====	=====
Identifiable Assets (at quarter end):				
Traditional	\$292,670	\$308,827	\$292,670	\$308,827
Specialty	191,799	124,456	191,799	124,456
	-----	-----	-----	-----
Total	484,469	433,283	484,469	433,283
Corporate Assets	20,945	12,855	20,945	12,855
	-----	-----	-----	-----
Total	\$505,414	\$446,138	\$505,414	\$446,138
	=====	=====	=====	=====
Depreciation and Amortization:				
Traditional	\$ 1,645	\$ 1,827	\$ 3,357	\$ 2,501
Specialty	1,334	757	2,514	1,307
	-----	-----	-----	-----
Total	2,979	2,584	5,871	3,808
Corporate	231	129	388	233
	-----	-----	-----	-----
Total	\$ 3,210	\$ 2,713	\$ 6,259	\$ 4,041
	=====	=====	=====	=====
Expenditures for Property and Equipment:				
Traditional	\$ 2,954	\$ 354	\$ 3,020	\$ 495
Specialty	1,432	503	2,519	896
	-----	-----	-----	-----
Total	4,386	857	5,539	1,391
Corporate	2,121	111	2,245	479
	-----	-----	-----	-----
Total	\$ 6,507	\$ 968	\$ 7,784	\$ 1,870
	=====	=====	=====	=====

(In thousands, except per share amounts)

NOTE 7 - RELATED PARTY TRANSACTION

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

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

Results of Operations

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

	Three Months Ended		Six Months Ended	
	October 23, 1999	October 24, 1998	October 23, 1999	October 24, 1998
Revenues	100.0%	100.0%	100.0%	100.0%
Cost of revenues	64.2	66.7	63.4	66.1
	-----	-----	-----	-----
Gross profit	35.8	33.3	36.6	33.9
Selling, general and administrative expenses	24.3	22.5	24.6	22.9
Restructuring costs	-	2.0	-	1.6
	-----	-----	-----	-----
Operating income	11.5	8.8	12.0	9.4
Interest and other	1.5	1.8	1.6	1.5
	-----	-----	-----	-----
Income before provision for income taxes	10.0	7.0	10.4	7.9
Provision for income taxes	4.7	3.5	4.9	3.8
	-----	-----	-----	-----
Net income	5.3%	3.5%	5.5%	4.1%
	=====	=====	=====	=====

Three Months Ended October 23, 1999 Compared to the Three Months Ended October 24, 1998

Revenues

Revenues increased 9.1% from \$212.3 million for the three months ended October 24, 1998, to \$231.6 million for the three months ended October 23, 1999. This increase was primarily due to internal growth on existing business and the inclusion of revenues from the four companies acquired in business combinations accounted for under the purchase method of accounting since October, 1998.

Gross Profit

Gross profit increased 17.2% from \$70.8 million or 33.3% of revenues for the three months ended October 24, 1998, to \$82.9 million or 35.8% of revenues for the three months ended October 23, 1999. The increase in gross profit as a percentage of revenues was due primarily to (1) an improvement in traditional business gross margins, which is primarily due to improved pricing and the elimination of less profitable products from our product offering, (2) an increase in specialty business revenue, where proprietary products generate higher gross margins than the traditional business and (3) an improvement in specialty business gross margin due primarily to contributions from the Sportime acquisition and a more favorable product mix.

Selling, General and Administrative Expenses

Selling, general and administrative expenses include selling

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

Selling, general and administrative expenses increased 17.4% from \$47.9 million or 22.5% of revenues for the three months ended October 24, 1998, to \$56.2 million or 24.3% of revenues for the three months ended October 23, 1999. The increase in selling, general and administrative expenses is primarily due to the increase in revenue. The increase in selling, general and administrative expenses as a percent of revenues is primarily due to (1) a shift in revenue mix to specialty business, which has higher selling, general and administrative expenses than the traditional business and (2) higher amortization expense due to goodwill amortization related to the four acquisitions since the end of October, 1998. 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.

Interest Expense

Interest expense, net of interest income, decreased from \$3.8 million or 1.8% of revenues for the three months ended October 24, 1998 to \$3.7 million or 1.5% of revenues for the three months ended October 23, 1999. The decrease in interest expense is primarily attributed to a reduction in debt outstanding, which is primarily due to the repayment of debt with the proceeds from our secondary offering, offset by the debt assumed and cash paid for the four companies acquired since the end of October, 1998.

Provision for Income Taxes

Provision for income taxes for the three months ended October 23, 1999 increased 45.8% or \$3.4 million over the three months ended October 24, 1998, reflecting income tax rates of 47.1% and 50.0% for the three months ended October 23, 1999 and October 24, 1998, respectively. The higher effective tax rate, compared to the federal statutory rate of 35.0%, is primarily due to state income taxes and non-deductible goodwill amortization.

Six Months Ended October 23, 1999 Compared to the Six Months Ended October 24, 1998

Revenues

Revenues increased 25.6% from \$339.0 million for the six months ended October 24, 1998, to \$425.9 million for the six months ended October 23, 1999. This increase was primarily due to internal growth on existing business and the inclusion of revenues from the six companies acquired in business combinations accounted for under the purchase method of accounting since the beginning of fiscal 1999.

Gross Profit

Gross profit increased 35.7% from \$114.8 million or 33.9% of revenues for the six months ended October 24, 1998 to \$155.8 million or 36.6% of revenues for the six months ended October 23, 1999. The increase in gross profit as a percentage of revenues was due primarily to (1) a shift in product mix to increased revenue from specialty business, where proprietary products generate higher gross margins than the traditional business, (2) an improvement in traditional business gross margins, driven primarily by more favorable pricing and the elimination of less profitable products from our product offering and (3) an improvement in specialty business gross margin, which was driven by a more favorable product mix and contributions from Sportime, which was acquired in February, 1999 and has higher gross margins

than our other businesses.

Selling, General and Administrative Expenses

Selling, general and administrative expenses increased 34.8% from \$77.5 million or 22.9% of revenues for the six months ended October 24, 1998, to \$104.5 million or 24.6% of revenues for the six months ended October 23, 1999. The increase in selling, general and administrative expenses is primarily due to an increase in revenue. The increase in selling, general and administrative expenses as a percent of revenues is primarily due to (1) a shift in revenue mix to specialty business, which has higher selling, general and administrative expenses than the traditional business and (2) higher amortization expense due to amortization of goodwill related to our six acquisitions since the beginning of fiscal 1999, which were accounted for under the purchase method of accounting. These increases are offset by reduced selling, general and administrative expense 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.

Interest Expense

Interest expense, net of interest income, increased \$1.8 million from \$5.0 million or 1.5% of revenues for the six months ended October 24, 1998 to \$6.8 million or 1.6% of revenues for the six months ended October 23, 1999. The increase in interest expense is primarily attributed to the debt assumed and cash paid for the six companies acquired since the beginning of fiscal 1999, partially offset by debt repaid from the net proceeds of our secondary offering.

Provision for Income Taxes

Provision for income taxes for the six months ended October 23, 1999 increased 60.6% or \$7.9 million over the six months ended October 24, 1998, reflecting income tax rates of 47.0% and 48.2% for the six months ended October

23, 1999 and October 24, 1998, respectively. The higher effective tax rate, compared to the federal statutory rate of 35.0%, is primarily due to state income taxes and non-deductible goodwill amortization.

Liquidity and Capital Resources

We have a five-year secured \$350 million revolving Senior Credit Facility with NationsBank. The Senior Credit Facility has a \$100 million term loan payable quarterly over five years commencing in January 1999 and revolving loans which mature on September 30, 2003. The amount outstanding as of October 23, 1999 under the Senior Credit Facility was \$194.7 million, consisting of \$102.2 million outstanding under the revolving loan portion of the facility and \$92.5 million outstanding under the term loan portion of the facility. Borrowings under the Senior Credit Facility are usually significantly higher during our first and second quarters to meet the working capital needs of our peak selling season. On October 28, 1998, we entered into an interest rate swap agreement with the Bank of New York covering \$50 million of the outstanding Senior Credit Facility. The agreement fixes the 30 day LIBOR interest rate at 4.37% per annum on the \$50 million notional amount and has a three year term that may be canceled by the Bank of New York on the second anniversary. Our effective interest rate for the six months ended October 23, 1999 was approximately 7.34%. During the six months ended October 23, 1999, we had net borrowings under our Senior Credit Facility of \$22.2 million, which were used to meet our seasonal working capital requirements, to fund an acquisition and to fund capital expenditures.

On April 16, 1999, we sold 2,400,000 shares of common stock in a secondary public offering. On May 17, 1999, we sold an additional 151,410 shares of common stock to cover over-

allotments for approximately \$2.2 million in net proceeds. The proceeds were used to reduce indebtedness outstanding under our Senior Credit Facility.

At October 23, 1999, we had working capital of \$161.7 million. Our capitalization at October 23, 1999 was \$424.2 million and consisted of bank debt of \$194.7 million and stockholders' equity of \$229.5 million.

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

During the six months ended October 23, 1999, net cash used in operating activities was \$17.3 million. This net use of cash by operating activities during the period is indicative of the high seasonal nature of our business, with sales occurring in the first and second quarters of the fiscal year and cash receipts in the second and third quarters. Net cash used in investing activities was \$9.7 million, including \$1.1 million for an acquisition, \$7.8 million for additions to property and equipment and \$0.9 million for other long-term assets. Net cash provided by financing activities was \$23.5 million, which consisted primarily of net borrowings under our Senior Credit Facility.

During the six months ended October 24, 1998, net cash used in operating activities was \$16.4 million. Net cash used in investing activities was \$96.3 million, including \$95.0 million for acquisitions. Net cash provided by financing activities was \$112.8 million, and included (1) repayment of debt to U.S. Office Products of \$83.0 million, (2) borrowings under the Senior Credit Facility of \$290.7 million, offset by debt repayments of \$132.8 million. Net borrowings include \$16.9 million used to fund the cash portion price of the acquisition of Hammond and Stephens and \$134.7 million used to fund the acquisition of Beckley-Cardy (consisting of \$78.1 million for the cash portion of the purchase price and \$56.6 million for debt repayment), (3) payment of loan fees of \$3.0 million, (4) \$32.7 million in net proceeds from the issuance of common stock in conjunction with our initial public offering and sale of 250,000 shares of common stock to management, and (5) \$8.1 million of contributed capital from U.S. Office Products under a distribution agreement entered into in connection with the spin-off.

In October 1999, we entered into agreements to sell and leaseback four of our distribution facilities, subject to certain contingencies. The selling price of the facilities would be approximately \$22.4 million, which represents fair market value. Net proceeds would be approximately \$21.7 million, and would be used to repay outstanding indebtedness under our Senior Credit Facility or for general corporate purposes, including working capital and for acquisitions. Due to uncertainty in the interest rate environment, we may not proceed with this transaction, which is currently scheduled to close in December 1999. Our liquidity and cash flow from operations and borrowings available from our existing Senior Credit Facility will be sufficient to meet our liquidity requirements for our operations (including anticipated capital expenditures) and our debt service obligations for the remainder of the year, regardless of whether or not we proceed with the above sale and leaseback transaction.

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 we sell, the mix of products sold and general economic conditions. Moreover, the operating margins of companies acquired by us may differ substantially from our own margins, which could contribute to further fluctuation in our quarterly operating results. Therefore, results for any quarter are not indicative of the results that we may achieve for any subsequent fiscal quarter or for a full fiscal year.

Inflation

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

Year 2000

We have established a centrally managed company-wide plan to identify, evaluate and address Year 2000 issues. Although our mission critical systems, network elements and products were verified for Year 2000 compliance as of the end of November 1999, we may still be susceptible to Year 2000-related problems. In addition, if our suppliers, service providers and/or customers fail to resolve their Year 2000 issues in an effective and timely manner, our business could be significantly and adversely affected. We believe that some of our school customers have not yet addressed or resolved their Year 2000 issues.

We estimate that expenses of approximately \$100,000 will be incurred in fiscal 2000 in connection with our Year 2000 expenses, in addition to approximately \$20,000 in expenses incurred through April 24, 1999. We also expect to incur certain capital improvement costs (totaling approximately \$300,000) to support this project. We expect to fund our Year 2000 efforts through operating cash flows. We will use the Senior Credit Facility for capital improvements related to the effort.

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

Statements made or contained in this quarterly report on Form 10-Q or any past statements regarding our state of readiness for the Year 2000 are deemed Year 2000 Readiness Statements and are subject to the Year 2000 Information and Readiness Disclosure Act (P.L. 105-271) to the fullest extent permissible by law.

Forward-Looking Statements

Statements in this report which are not strictly historical are "forward looking." In accordance with the Private Securities Litigation Reform Act of 1995, we can obtain a "safe-harbor" for forward-looking statements by identifying those statements and by accompanying those statements with cautionary statements which identify factors that could cause actual results to differ materially from those in the forward-looking statements. Accordingly, the foregoing "Management's Discussions and Analysis of Financial Condition and Results of Operations" contains

certain forward-looking statements relating to growth plans and projected revenues, earnings and costs. Our actual results may differ materially from those contained in the forward-looking statements herein. Factors which may cause such a difference to occur include those factors identified in Item 1, "Business - Forward Looking Statements," contained in the Company's Form 10-K for the year ended April 24, 1999, which factors are incorporated herein by reference to such Form 10-K.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

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

PART II - OTHER INFORMATION

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

- (a) On September 2, 1999, we held our Annual Meeting of Stockholders.
- (b) Not applicable.
- (c) The Annual Meeting of Stockholders was held to elect two directors to serve until the 2002 Annual Meeting of Stockholders as Class I directors and to ratify the appointment of PricewaterhouseCoopers LLP as our independent auditors for fiscal 2000. The results of these proposals, which were voted upon at the Annual Meeting, are as follows:

Election of Directors

	For	Withheld
(1) Jonathan J. Ledecy	14,709,147	39,306
(2) Jerome M. Pool	14,712,502	35,951

Ratification of Independent Auditors

	For	Against	Abstain/Broker Non-Vote
PricewaterhouseCoopers LLP	14,629,077	108,285	11,091

- (d) Not applicable.

Item 6. Exhibits and Reports on Form 8-K

- (a) Exhibits.

Exhibit No.	Description
10.1	Employment Agreement dated as of September 3, 1999 between School Specialty, Inc. and Daniel P. Spalding
10.2	Employment Agreement dated as of September 23, 1999 between School Specialty, Inc. and Mary M. Kabacinski
10.3	Employment Agreement dated as of September 3, 1999 between School Specialty, Inc. and Donald J. Noskowiak
27.1	Financial Data Schedule

- (b) Reports on Form 8-K.

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

SIGNATURES

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

SCHOOL SPECIALTY, INC.
(Registrant)

December 6, 1999	/s/ Daniel P. Spalding
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Date	Daniel P. Spalding Chairman of the Board and Chief Executive Officer (Principal Executive Officer)
December 6, 1999	/s/ Mary M. Kabacinski
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Date	Mary M. Kabacinski Executive Vice President and Chief Financial Officer (Principal Financial and Accounting Officer)

INDEX TO EXHIBITS

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27.1	Financial Data Schedule

EMPLOYMENT AGREEMENT

THIS EMPLOYMENT AGREEMENT, dated as of this 3rd day of September, 1999, and having an "Effective Date" of September 3, 1999, is by and between SCHOOL SPECIALTY, INC., a Delaware corporation (the "Company") and DANIEL P. SPALDING ("Employee").

RECITALS

The Company desires to continue to employ Employee and to have the benefit of his skills and services, and Employee desires to accept employment with the Company, on the terms and conditions set forth herein.

This Employment Agreement supercedes and cancels any other prior employment agreements or understandings; written or oral, between the Company and the Employee.

NOW, THEREFORE, in consideration of the mutual promises, terms, covenants and conditions set forth herein, and the performance of each, the parties hereto, intending legally to be bound, hereby agree as follows:

AGREEMENTS

1. Employment and Duties. The Company hereby agrees to employ the Employee and the Employee hereby accepts employment as the Chairman and Chief Executive Officer of the Company and agrees to devote his full business time and efforts to the diligent and faithful performance of his duties as Chairman and Chief Executive Officer of the Company hereunder under the direction of the Board of Directors of the Company. Such duties shall be performed from headquarters in the Appleton, Wisconsin, area. Throughout the term of this Agreement, the Employee shall be recommended by management of the Company, to its shareholders as a suitable candidate for a position on the Board of Directors of the Company.
2. Term of Employment. Unless sooner terminated as hereinafter provided, the term of the Employee's employment hereunder shall commence with and only with the Effective Date and shall continue for a period of three (3) years (the "Term"). This Agreement may be terminated prior to the end of the Term in the manner provided herein. In the event that this agreement is not terminated pursuant to the terms of this Agreement, following the first year of the Term of three (3) years or the first year of any renewal terms thereof, said agreement shall extend for successive renewal terms of three (3) years each measured from the date of renewal, unless either party shall notify the other party of their desire to not renew the term of this agreement, with said notice to be made no later than ninety (90) days prior to the expiration of the first year of the Term of this agreement or any then effective first year of any renewal term thereof.
3. Compensation. For all services rendered by Employee, the Company shall compensate Employee as follows:
 - (a) Base Salary. Effective on the date hereof, the annual base salary payable to Employee shall be Two Hundred Twenty-Five Thousand (\$225,000) per year or such greater amount as

determined from time to time by the Board of Directors of the Company (but not reviewed less frequently than on an annual basis), payable on a regular basis in accordance with the

Company's standard payroll procedures, but not less than monthly. It is understood that the base salary is a minimum amount, and shall not be reduced during the term of this Agreement.

(b) Incentive Bonus. During the initial term and any extensions thereof, Employee shall be eligible to receive an incentive bonus based upon his participation in the Company's senior management bonus program as specified in Exhibit A as attached hereto, or successor senior management bonus programs. The first and last years of employment will be prorated.

(c) Perquisites, Benefits, and Other Compensation. During the initial term and any extensions thereof, Employee shall be entitled to receive all perquisites and benefits as are customarily provided by the Company to its executive employees, subject to such changes, additions, or deletions as the Company may make generally from time to time, as well as such other perquisites or benefits as may be specified from time to time by the Board of Directors or the Chief Executive Officer of the Company.

4. Covenants and Conditions.

(a) The Employee will acquire information and knowledge respecting the intimate and confidential affairs of the Company in the various phases of its business. Accordingly, the Employee agrees that he shall not for a period of two (2) years following the termination of his employment with the Company, use for himself or disclose to any person not employed by the Company any such knowledge or information heretofore acquired or acquired during the term of this employment hereunder including but not limited to the prescribed requirements of S.134.90 of the Wisconsin Statutes, as hereinafter amended from time to time. Nothing in this agreement shall be construed to limit or supersede the common law of torts or statutory or other protection of trade secrets where such law provides the Company with greater protections or protections for a longer duration than that provided in this section 4 of this Agreement.

(b) The Employee agrees that all memoranda, notes, records, papers, or other documents and all copies thereof relating to the Company's operations or business, some of which may be prepared by him, and all objects associated therewith (such as models and samples) in any way obtained by him shall be the Company's property. This shall include, but is not limited to, documents and objects concerning any process, apparatus, or product manufactured, used, developed, investigated, or considered by the Company. The Employee shall not, except for Company use, copy or duplicate any of the aforementioned documents or objects, nor remove them from the Company's facilities, nor use any information concerning them except for the Company's benefit, either during his employment or thereafter. The Employee agrees that he will deliver all of the aforementioned documents and objects that may be in his possession to the Company on termination of his employment, or at any other time on the Company's request, together with his written certification of compliance, except for those documents and objects received as a director of the Company.

5. Death or Disability of the Employee. The Employee's employment shall terminate immediately upon his death. In the event the Employee becomes physically or mentally disabled so as to qualify for disability payments under the then current disability coverage for

full time employees of the Company, the Company may at its option terminate his employment upon not less than thirty (30) days written notice. The Company's right to terminate the Employee's employment pursuant to the preceding sentence shall cease in the event the notice of termination provided for therein shall not be given during the period of the Employee's disability or within ninety (90) days after such disability ceases. In the event of termination, the Company shall be obligated to pay the Employee's salary under paragraph 3 hereof, net of the gross amount of Long Term disability benefits received by the Employee, through the balance of the term of this Agreement and any then currently effective extension thereof.

6. Termination and Severance Compensation. The Company reserves the right to immediately terminate the Employee's employment under this agreement should any of the following occur:

(a) The Employee's commission of a felony that is an act which, in the opinion of the Board of Directors, is either abhorrent to the community or is an intentional act, which the Board of Directors considers materially damaging to the reputation of the Company or its successors or assigns.

(b) The Employee's breach of or failure to perform his obligations in accordance with the terms and conditions of this agreement. However the right of the Company to terminate the employment of the Employee under the terms of this paragraph 6(b) shall be conditioned upon the Company promptly providing to the Employee a written notice which describes the Employee's breach of or failure to perform his obligations in accordance with the terms and conditions of this agreement. The Employee shall have thirty (30) days from the date of the Company's issuance of this notice to cure the described breach or failure. Notwithstanding the above described language, should the Company issue more than one (1) notice in any twelve (12) month period under the terms of this paragraph 6(b), the Employee shall have no cure rights for such breach or failure to perform.

(c) The death of the Employee.

(d) The disability of the Employee, as described in Section 5 above.

Should the term of the Employee's employment with the Company be terminated pursuant to the terms of Section 6(c) and 7 herein, the Company shall pay to the Employee the Base Salary described in Section 3(a) for the balance of the then effective term of this Agreement.

7. Rights and Obligations of Successors. In the event that any of the following events occur, a "Change in Control" shall be deemed to occur for the purpose of this Agreement: (a) any person or group of persons acting in concert becomes the beneficial owner, directly or indirectly (excluding ownership by or through employee benefit plans), of securities of the Company representing fifty percent (50%) or more of the combined voting power of the Company's then outstanding securities; (b) the Company is combined (by merger, share exchange, consolidation, or otherwise) with another corporation and as a result of such combination less than seventy five percent (75%) of the

outstanding securities of the surviving or resulting corporation

are owned in the aggregate by the former shareholders of the Company; or (c) any person or group of persons acting in concert obtains direct or indirect control of the Board of Directors of the Company, other than the current shareholders of the Company. The Employee shall have the right to terminate his employment under the terms of this Agreement for a period of sixty (60) days following the Change in Control. In the event that the Employee shall not so elect to terminate this Agreement, then this agreement shall be assignable and transferable by the Company to any subsidiary or affiliate or to any subsidiary or affiliate of the Company affiliated with the Change in Control and shall inure to the benefit of and be binding upon the Employee and his heirs and personal representatives and the Company and its successors and assigns. In the event the Employee elects to terminate employment, the Employee shall be paid through the term of this Agreement and any then currently effective extension thereof.

8. Covenant Not to Compete. In consideration of the employment hereunder, the Employee hereby agrees that during the term of his employment by the Company and for a period of twenty four (24) months following the termination of his employment with the Company, the Employee will not either directly or indirectly own, have proprietary interest (except for less than 5% of any listed company or company traded in the over-the-counter market) of any kind in, be employed by, or serve as a consultant to or in any other capacity for any firm, other than the Company and its subsidiaries, engaged in the manufacture and distribution of school supplies, equipment, furniture or other products made and distributed by the Company or any of the Company's present or future subsidiary corporations (acquired during the term of this Agreement) during the period of the Employee's employment in the area where they are engaged in business without the express written consent of the Company. The Employee agrees that a breach of the covenant contained herein will result in irreparable and continuing damage to the Company for which there will be no adequate remedy at law and in the event of any breach of such agreement, the Company shall be entitled to injunctive and such other and further relief including damages as may be proper.
9. Notice. All notices, demands and other communications hereunder shall be deemed to have been duly given, if delivered by hand or mailed, certified or registered mail with postage prepaid:

To the Company: School Specialty, Inc.
426 W. College Avenue
P.O. Box 1579
Appleton, WI 54911
Attention: Mr. Daniel P. Spalding
Fax: (920) 882-5863

With a copy to: Joseph F. Franzoi IV, Esq.
Franzoi & Franzoi, S.C.
514 Racine Street
Menasha, WI 54952
Fax: (920) 725-0998

To Employee: Daniel P. Spalding
350 Park Street
Menasha, WI 54952

or to such other address as the person to whom notice is to be given may have specified in a notice duly given to the sender as provided herein. Such notice, request, claim, demand, waiver, consent, approval or other communication shall be deemed to have been given

as of the date so delivered, telefaxed, mailed or dispatched and, if given by any other means, shall be deemed given only when actually received by the addressees.

10. Entire Agreement; Amendment; Waiver. This Agreement (including any documents referred to herein) sets forth the entire understanding of the parties hereto with respect to the subject matter contemplated hereby. Any and all previous agreements and understandings between or among the parties regarding the subject matter hereof, whether written or oral, are superseded by this Agreement. This Agreement shall not be amended or modified except by a written instrument duly executed by each of the parties hereto. Any extension or waiver by any party of any provision hereto shall be valid only if set forth in an instrument in writing signed on behalf of such party.
11. Expenses. Each party hereto will pay their respective fees, expenses and disbursements of their agents, representatives, accountants and counsel incurred in connection with the subject matter of this Agreement, and its enforcement.
12. Governing Law. This Agreement shall in all respects be construed according to the laws of the State of Wisconsin, without regard to its conflict of laws principles.

IN WITNESS WHEREOF, the parties hereto have cause this Agreement to be duly executed as of the date first written above.

COMPANY: SCHOOL SPECIALTY, INC.

/s/ David Vander Zanden

David Vander Zanden, President

EMPLOYEE:

/s/ Daniel P. Spalding

Daniel P. Spalding, Individually

School Specialty
Fiscal 2000
Incentive Program

Executive Plan:

Corporate criteria: 100% on consolidated EBITA

Budget EBITA: \$62,829,000

Payout:

Below budget: \$-0-

At budget: 50% of base salary

Max at Budget + 20%, or \$75,395,000 = 100% of base salary

Specialty/Traditional Companies Plan:

Corporate criteria: 25% based upon consolidated EBITA, as above.

Division criteria: 75% based upon Division performance in three areas:

1. Budget EBITA: Max payout: 37.5% of base salary
Below budget: \$-0-

At budget: 18.75% of base salary
Max: budget + 20% of Division EBITA: 37.5% of base salary

2. Return on Average Operating Assets: Max payout: 18.75% of base salary
Calc: $\text{EBITA} / (\text{Gross A/R} + \text{Gross Inv.} + \text{Net F/A} - \text{A/P}) =$
Return on Average Operating Assets (RAOA)
(average calculated using month-end balance)

Payout:
0 - 20% RAOA 0
21 - 60% RAOA 0 - 18.75% of base salary

3. Return on Sales: Max payout: 18.75% of base salary
Calc: $\text{EBITA} / \text{Net Sales}$

Payout:

Spec. Co's
7 - 20% Return on Sales: 0 - 18.75% of base salary
Trad. Co.
6 - 12% Return on Sales: 0 - 18.75% of base salary

Example:

Corporate EBITA budget	\$63 million
Spec. Co. EBITA budget	\$10 million
Executive Base Salary	\$100,000

If actual performance is as follows:

EBITA Div.	\$11 million
Avg. Operating Assets	\$28 million
Net Sales	\$61 million
EBITA Corp.	\$68 million

Bonus:

25% Corp. EBITA:	$\$68 - \$63 = \$5 \text{ mil.} = 75\% \times \$100,000 \times 25\% =$	\$18,750
37.5% Div. EBITA:	$\$10 - \$11 = \$1 \text{ mil.} = 75\% \times \$100,000 \times 37.5\% =$	\$28,125
18.75% RAOA:	$11 \text{ mil} / 28 \text{ mil} = 40 \text{ RAOA} = 75\% \times \$100,000 \times 18.75\% =$	\$14,063
18.75% Rtn on Sales:	$11 \text{ mil} / 61 \text{ mil} = 18\% = 85\% \times \$100,000 \times 18.75\% =$	\$15,938

Total Bonus	\$76,876
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May 17, 1999

EMPLOYMENT AGREEMENT

THIS EMPLOYMENT AGREEMENT, dated as of this 3rd day of September, 1999, and having an "Effective Date" of September 3, 1999, is by and between SCHOOL SPECIALTY, INC., a Delaware corporation (the "Company"), and MARY M. KABACINSKI ("Employee").

RECITALS

The Company desires to employ Employee and to have the benefit of her skills and services, and Employee desires to accept employment with the Company, on the terms and conditions set forth herein.

NOW, THEREFORE, in consideration of the mutual promises, terms, covenants and conditions set forth herein, and the performance of each, the parties hereto, intending legally to be bound, hereby agree as follows:

AGREEMENTS

1. Employment and Duties. The Company hereby agrees to employ the Employee and the Employee hereby accepts employment as a Vice President and the Chief Financial Officer of the Company and agrees to devote her full business time and efforts to the diligent and faithful performance of her duties as a Vice President and the Chief Financial Officer of the Company hereunder under the direction of the Chief Executive Officer of the Company. Such duties shall be performed from headquarters in the Appleton, Wisconsin, area.
2. Term of Employment. Unless sooner terminated as hereinafter provided, the term of the Employee's employment hereunder shall commence with and only with the Effective Date and shall continue for a period of two (2) years (the "Term"). This Agreement may be terminated prior to the end of the Term in the manner provided herein. In the event that this agreement is not terminated pursuant to the terms of this Agreement, following the first year of the Term of two (2) years or the first year of any renewal terms thereof, said agreement shall extend for successive renewal terms of two (2) years each measured from the date of renewal, unless either party shall notify the other party of their desire to not renew the term of this agreement, with said notice to be made no later than ninety (90) days prior to the expiration of the first year of the Term of this agreement or any then effective first year of any renewal term thereof.
3. Compensation. For all services rendered by Employee, the Company shall compensate Employee as follows:
 - (a) Base Salary. Effective on the date hereof, the annual base salary payable to Employee shall be One Hundred Seventy Five Thousand Dollars (\$175,000.00) per year or such greater amount as determined from time to time by the Board of Directors of the Company (but not reviewed less frequently than on an annual basis), payable on a regular basis in accordance with the Company's standard payroll procedures, but not less than monthly. It is understood that the base salary is a minimum amount, and shall not be reduced during the term of this Agreement.
 - (b) Incentive Bonus. During the initial term and any extensions thereof, Employee shall be eligible to receive an incentive bonus based upon her

participation in the Company's senior management bonus program as specified in Exhibit A as attached hereto, or successor senior management bonus programs. The first and last years of employment will be prorated.

- (c) Perquisites, Benefits, and Other Compensation. During the initial term and any extensions thereof, Employee shall be entitled to receive all perquisites and benefits as are customarily provided by the Company to its executive employees, subject to such changes, additions, or deletions as the Company may make generally from time to time, as well as such other perquisites or benefits as may be specified from time to time by the Board of Directors or the Chief Executive Officer of the Company.
- (d) Stock Options. The Employee shall be granted a combination of options granted under the School Specialty, Inc., 1998 Stock Incentive Plan Incentive Stock Option Agreement ("ISO") (as defined and qualified under S.422 of the Internal Revenue Code of 1986, as amended (the "Code") and School Specialty, Inc., 1998 Stock Incentive Plan Nonqualified Stock Option Agreement ("NSO") in a total amount of 75,000 shares of common stock of the Company (the "Option Shares"). The Option Shares shall be composed of the maximum amount of shares permitted to be issued under the terms of the ISO with the balance to be issued under the terms of the NSO. The strike price of these options shall be the closing price of common stock of the Company on the Effective Date. The ability to purchase the Option Shares shall be consistent with the current management option agreement specified in Exhibit B as attached hereto.

4. Covenants and Conditions.

- (a) The Employee will acquire information and knowledge respecting the intimate and confidential affairs of the Company in the various phases of its business. Accordingly, the Employee agrees that she shall not for a period of two (2) years following the termination of her employment with the Company, use for herself or disclose to any person not employed by the Company any such knowledge or information heretofore acquired or acquired during the term of this employment hereunder including but not limited to the prescribed requirements of S.134.90 of the Wisconsin Statutes, as hereinafter amended from time to time. Nothing in this agreement shall be construed to limit or supersede the common law of torts or statutory or other protection of trade secrets where such law provides the Company with greater protections or protections for a longer duration than that provided in this section 4 of this Agreement.
- (b) The Employee agrees that all memoranda, notes, records, papers, or other documents and all copies thereof relating to the Company's operations or business, some of which may be

prepared by her, and all objects associated therewith (such as models and samples) in any way obtained by her shall be the Company's property. This shall include, but is not limited to, documents and objects concerning any process, apparatus, or product manufactured, used, developed, investigated, or considered by the Company. The Employee shall not, except for Company use, copy or duplicate any of the aforementioned documents or objects, nor remove them from the Company's facilities, nor use any information concerning them except for the Company's benefit, either during her employment or thereafter. The Employee agrees that she will deliver all of the aforementioned documents and objects that may be in her possession to the Company on

termination of her employment, or at any other time on the Company's request, together with her written certification of compliance, except for those documents and objects received as a director of the Company.

5. Death or Disability of the Employee. The Employee's employment shall terminate immediately upon her death. In the event the Employee becomes physically or mentally disabled so as to become unable, for a period of more than one hundred twenty (120) consecutive working days or for more than one hundred twenty (120) working days in the aggregate during any twelve (12) month period, to perform her duties hereunder on a substantially full-time basis, the Company may at its option terminate her employment upon not less than thirty (30) days written notice. The Company's right to terminate the Employee's employment pursuant to the preceding sentence shall cease in the event the notice of termination provided for therein shall not be given during the period of the Employee's disability or within ninety (90) days after such disability ceases. In the event of termination, the Company shall be obligated to pay the Employee's salary under paragraph 3 hereof, net of the gross amount of Long Term disability benefits received by the Employee, through the balance of the term of this Agreement and any then currently effective extension thereof.
6. Termination and Severance Compensation. The Company reserves the right to immediately terminate the Employee's employment under this agreement should any of the following occur:
 - (a) The Employee's commission of a felony that is an act which, in the opinion of the Board of Directors, is either abhorrent to the community or is an intentional act, which the Board of Directors considers materially damaging to the reputation of the Company or its successors or assigns.
 - (b) The Employee's breach of or failure to perform her obligations in accordance with the terms and conditions of this agreement. However the right of the Company to terminate the employment of the Employee under the terms of this paragraph 6(b) shall be conditioned upon the Company promptly providing to the Employee a written notice which describes the Employee's breach of or failure to perform her obligations in accordance with the terms and conditions of this agreement. The Employee shall have thirty (30) days from the date of the Company's issuance of this notice to cure the described breach or failure. Notwithstanding the above described language, should the Company issue more than one (1) notice in any twelve (12) month period under the terms of this paragraph 6(b), the Employee shall have no cure rights for such breach or failure to perform.
 - (c) The death or disability of the Employee.
7. Rights and Obligations of Successors. In the event that any of the following events occur, a "Change in Control" shall be deemed to occur for the purpose of this Agreement: (a) any person or group of persons acting in concert becomes the beneficial owner, directly or indirectly (excluding ownership by or through employee benefit plans), of securities of the Company representing fifty percent (50%) or more of the combined voting power of the Company's then outstanding securities; (b) the Company is combined (by merger, share exchange, consolidation, or otherwise) with another corporation and as a result of such combination less than seventy five percent (75%) of the outstanding

securities of the surviving or resulting corporation are owned in the aggregate by the former shareholders of the Company; or (c) any person or group of persons acting in concert obtains direct or indirect control of the Board of Directors of the Company, other than the current shareholders of the Company. The Employee shall have the right to terminate her employment under the terms of this Agreement for a period of sixty (60) days following the Change in Control. In the event that the Employee shall not so elect to terminate this Agreement, then this agreement shall be assignable and transferable by the Company to any subsidiary or affiliate or to any subsidiary or affiliate of the Company affiliated with the Change in Control and shall inure to the benefit of and be binding upon the Employee and her heirs and personal representatives and the Company and its successors and assigns. In the event the Employee elects to terminate employment, the Employee shall be paid through the term of this Agreement and any then currently effective extension thereof.

8. Covenant Not to Compete. In consideration of the employment hereunder, the Employee hereby agrees that during the term of her employment by the Company and for a period of eighteen (18) months following the termination of her employment with the Company, the Employee will not either directly or indirectly own, have proprietary interest (except for less than 5% of any listed company or company traded in the over-the-counter market) of any kind in, be employed by, or serve as a consultant to or in any other capacity for any firm, other than the Company and its subsidiaries, engaged in the manufacture and distribution of school supplies, equipment, furniture or other products made and distributed by the Company or any of the Company's present or future subsidiary corporations (acquired during the term of this Agreement) during the period of the Employee's employment in the area where they are engaged in business without the express written consent of the Company. The Employee agrees that a breach of the covenant contained herein will result in irreparable and continuing damage to the Company for which there will be no adequate remedy at law and in the event of any breach of such agreement, the Company shall be entitled to injunctive and such other and further relief including damages as may be proper.
9. Notice. All notices, demands and other communications hereunder shall be deemed to have been duly given, if delivered by hand or mailed, certified or registered mail with postage prepaid:

To the Company: School Specialty, Inc.
426 W. College Avenue
P.O. Box 1579
Appleton, WI 54911
Attention: Mr. Daniel P. Spalding
Fax: (920) 882-5863

With a copy to: Joseph F. Franzoi IV, Esq.
Franzoi & Franzoi, S.C.
514 Racine Street
Menasha, WI 54952
Fax: (920) 725-0998

To Employee: Mary M. Kabacinski
910 East Mayfield Drive
Appleton, WI 54911

or to such other address as the person to whom notice is to be given may have specified in a notice duly given to the sender as provided herein. Such notice,

request, claim, demand, waiver, consent, approval or other communication shall be deemed to have been given as of the date so delivered, telefaxed, mailed or dispatched and, if given by any other means, shall be deemed given only when actually received by the addressees.

10. Entire Agreement; Amendment; Waiver. This Agreement (including any documents referred to herein) sets forth the entire understanding of the parties hereto with respect to the subject matter contemplated hereby. Any and all previous agreements and understandings between or among the parties regarding the subject matter hereof, whether written or oral, are superseded by this Agreement. This Agreement shall not be amended or modified except by a written instrument duly executed by each of the parties hereto. Any extension or waiver by any party of any provision hereto shall be valid only if set forth in an instrument in writing signed on behalf of such party.
11. Expenses. Each party hereto will pay their respective fees, expenses and disbursements of their agents, representatives, accountants and counsel incurred in connection with the subject matter of this Agreement, and its enforcement.
12. Governing Law. This Agreement shall in all respects be construed according to the laws of the State of Wisconsin, without regard to its conflict of laws principles.

IN WITNESS WHEREOF, the parties hereto have cause this Agreement to be duly executed as of the date first written above.

COMPANY: SCHOOL SPECIALTY, INC.

/s/ Daniel P. Spalding

Daniel P. Spalding, Chairman and
Chief Executive Officer

EMPLOYEE:

/s/ Mary Kabacinski

Mary Kabacinski, Individually

School Specialty
Fiscal 2000
Incentive Program

Executive Plan:

Corporate criteria: 100% on consolidated EBITA

Budget EBITA: \$62,829,000

Payout:

Below budget: \$-0-
At budget: 50% of base salary
Max at Budget + 20%, or \$75,395,000 = 100% of base salary

Specialty/Traditional Companies Plan:

Corporate criteria: 25% based upon consolidated EBITA, as above.

Division criteria: 75% based upon Division performance in three areas:

1. Budget EBITA: Max payout: 37.5% of base salary
 Below budget: \$-0-
 At budget: 18.75% of base salary
 Max: budget + 20% of Division EBITA: 37.5% of base salary

2. Return on Average Operating Assets: Max payout: 18.75% of base salary
 Calc: EBITA/Gross A/R + Gross Inv. + Net F/A - A/P =
 Return on Average Operating Assets (RAOA)
 (average calculated using month-end balance)

 Payout:
 0 - 20% RAOA 0
 21 - 60% RAOA 0 - 18.75% of base salary

3. Return on Sales: Max payout: 18.75% of base salary
 Calc: EBITA/Net Sales

 Payout:

 Spec. Co's
 7 - 20% Return on Sales: 0 - 18.75% of base salary
 Trad. Co.
 6 - 12% Return on Sales: 0 - 18.75% of base salary

Example:

Corporate EBITA budget	\$63 million
Spec. Co. EBITA budget	\$10 million
Executive Base Salary	\$100,000

If actual performance is as follows:

EBITA Div.	\$11 million
Avg. Operating Assets	\$28 million
Net Sales	\$61 million
EBITA Corp.	\$68 million

Bonus:

25% Corp. EBITA:	$\$68 - \$63 = \$5 \text{ mil.} = 75\% \times \$100,000 \times 25\% =$	\$18,750
37.5% Div. EBITA:	$\$10 - \$11 = \$1 \text{ mil.} = 75\% \times \$100,000 \times 37.5\% =$	\$28,125
18.75% RAOA:	$11 \text{ mil}/28 \text{ mil} = 40 \text{ RAOA} = 75\% \times \$100,000 \times 18.75\% =$	\$14,063
18.75% Rtn on Sales:	$11 \text{ mil}/61 \text{ mil} = 18\% = 85\% \times \$100,000 \times 18.75\% =$	\$15,938
Total Bonus		\$76,876

May 17, 1999

AMENDED AND RESTATED
 SCHOOL SPECIALTY, INC.
 1998 STOCK INCENTIVE PLAN

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 September 2, 1999.

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. If necessary to conform the Awards to the interests for which they are substitutes, the Administrator may grant substitute Awards under terms and conditions 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.
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.
EXERCISE SCHEDULE	Unless the Administrator specifies otherwise, each Formula Option will become exercisable as to 20% 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.
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.
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 that date;

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 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 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.

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.

No portion of an Award that is unexercisable at a Participant's termination of employment will thereafter become exercisable, unless the Award Agreement provides otherwise, either initially or by amendment.

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");

consummation of a merger or consolidation of the Company into any other entity-unless the holders of the Company Voting Securities outstanding immediately before such consummation, 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 consummated.

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 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 written 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 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 provided the notice directs that the stock certificates 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 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.

If the Administrator agrees to allow an Optionee to pay through tendering Common Stock to the Company, the individual can only tender stock they have 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.

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). Unless the Award Agreement provides otherwise, either initially or by amendment, no one may exercise

an Award after the first to occur of:

EMPLOYMENT
TERMINATION

The 90th day after the date of termination of employment (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 ends for any reason, including retirement. 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;

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 employment, 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 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 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 600,000; 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 beginning with 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 can use a different definition of Subsidiary in its discretion.

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. 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
WITHHOLDING

The Participant must satisfy all applicable Federal, state, and local income and employment tax withholding requirements before the Company will deliver stock certificates 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

Rule 16b-3 of the Exchange Act then applies to an Award, 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
OPTIONS

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.

APPLICABLE

The laws of the State of Delaware (other than its

LAW choice of law provisions) govern this Plan and its interpretation.

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

EMPLOYMENT AGREEMENT

THIS EMPLOYMENT AGREEMENT, dated as of this 3rd day of September, 1999, and having an "Effective Date" of September 3, 1999, is by and between SCHOOL SPECIALTY, INC., a Delaware corporation (the "Company") and DONALD J. NOSKOWIAK ("Employee").

RECITALS

The Company desires to continue to employ Employee and to have the benefit of his skills and services, and Employee desires to accept employment with the Company, on the terms and conditions set forth herein.

NOW, THEREFORE, in consideration of the mutual promises, terms, covenants and conditions set forth herein, and the performance of each, the parties hereto, intending legally to be bound, hereby agree as follows:

AGREEMENTS

1. Employment and Duties. The Company hereby agrees to employ the Employee and the Employee hereby accepts employment as a Vice President Finance and Business Development of the Company and agrees to devote his full business time and efforts to the diligent and faithful performance of his duties as a Vice President Finance and Business Development of the Company hereunder under the direction of the Chief Financial Officer of the Company. Such duties shall be performed from headquarters in the Appleton, Wisconsin, area.
2. Term of Employment. Unless sooner terminated as hereinafter provided, the term of the Employee's employment hereunder shall commence with and only with the Effective Date and shall continue for a period of eighteen (18) months (the "Term"). This Agreement may be terminated prior to the end of the Term in the manner provided herein. In the event that this agreement is not terminated pursuant to the terms of this Agreement, following the first eighteen (18) months of the Term of or any renewal terms thereof, said agreement shall extend for a successive renewal term of eighteen (18) months measured from the date of the expiration of the Term or the expiration of any subsequent renewal term, unless either party shall notify the other party of their desire to not renew the term of this agreement, with said notice to be made no later than ninety (90) days prior to the expiration of the Term of this agreement or any then effective renewal term thereof.
3. Compensation. For all services rendered by Employee, the Company shall compensate Employee as follows:
 - (a) Base Salary. Effective on the date hereof, the annual base salary payable to Employee shall be One Hundred Forty Thousand Dollars (\$140,000.00) per year or such greater amount as determined from time to time by the Board of Directors of the Company (but not reviewed less frequently than on an annual basis), payable on a regular basis in accordance with the Company's standard payroll procedures, but not less than monthly. It is understood that the base salary is a minimum amount, and shall not be reduced during the term of this Agreement.
 - (b) Incentive Bonus. During the initial term and any extensions thereof, Employee shall be eligible to receive an incentive bonus based upon his participation in the Company's executive incentive

bonus program as specified in Exhibit A as attached hereto, or successor executive incentive bonus programs. Bonuses will be prorated and paid based upon the number of days employed in the fiscal year of termination.

- (c) Perquisites, Benefits, and Other Compensation. During the initial term and any extensions thereof, Employee shall be entitled to receive all perquisites and benefits as are customarily provided by the Company to its executive employees, subject to such changes, additions, or deletions as the Company may make generally from time to time, as well as such other perquisites or benefits as may be specified from time to time by the Board of Directors or the Chief Executive Officer of the Company.

4. Covenants and Conditions.

- (a) The Employee will acquire information and knowledge respecting the intimate and confidential affairs of the Company in the various phases of its business. Accordingly, the Employee agrees that he shall not for a period of two (2) years following the termination of his employment with the Company, use for himself or disclose to any person not employed by the Company any such knowledge or information heretofore acquired or acquired during the term of this employment hereunder including but not limited to the prescribed requirements of S.134.90 of the Wisconsin Statutes, as hereinafter amended from time to time. Nothing in this agreement shall be construed to limit or supersede the common law of torts or statutory or other protection of trade secrets where such law provides the Company with greater protections or protections for a longer duration than that provided in this section 4 of this Agreement.

- (b) The Employee agrees that all memoranda, notes, records, papers, or other documents and all copies thereof relating to the Company's operations or business, some of which may be prepared by him, and all objects associated therewith (such as models and samples) in any way obtained by him shall be the Company's property. This shall include, but is not limited to, documents and objects concerning any process, apparatus, or product manufactured, used, developed, investigated, or considered by the Company. The Employee shall not, except for Company use, copy or duplicate any of the aforementioned documents or objects, nor remove them from the Company's facilities, nor use any information concerning them except for the Company's benefit, either during his employment or thereafter. The Employee agrees that he will deliver all of the aforementioned documents and objects that may be in his possession to the Company on termination of his employment, or at any other time on the Company's request, together with his written certification of compliance, except for those documents and objects received as a director of the Company.

5. Death or Disability of the Employee. The Employee's employment shall terminate immediately upon his death. In the event the Employee becomes physically or mentally disabled so as to qualify for disability payments under the then current disability coverage for full time employees of the Company, the Company may at its option terminate his employment upon not less than thirty (30) days written notice. The Company's right to terminate the Employee's employment pursuant to the preceding sentence shall cease in the event the notice of

termination provided for therein shall not be given during the period of the Employee's disability. In the event of termination, the Company shall

not be obligated to pay the Employee's salary under paragraph 3 hereof, but rather the Employee shall receive the gross amount of disability benefits as currently available under the then current disability coverage provided by the Company for its full time Employees.

6. Termination and Severance Compensation. The Company reserves the right to immediately terminate the Employee's employment under this agreement should any of the following occur:

- (a) The Employee's commission of a felony that is an act which, in the opinion of the Board of Directors, is either abhorrent to the community or is an intentional act, which the Board of Directors considers materially damaging to the reputation of the Company or its successors or assigns.
- (b) The Employee's breach of or failure to perform his obligations in accordance with the terms and conditions of this agreement. However the right of the Company to terminate the employment of the Employee under the terms of this paragraph 6(b) shall be conditioned upon the Company promptly providing to the Employee a written notice which describes the Employee's breach of or failure to perform his obligations in accordance with the terms and conditions of this agreement. The Employee shall have thirty (30) days from the date of the Company's issuance of this notice to cure the described breach or failure. Notwithstanding the above described language, should the Company issue more than one (1) notice in any twelve (12) month period under the terms of this paragraph 6(b), the Employee shall have no cure rights for such breach or failure to perform.
- (c) The death of the Employee.
- (d) The disability of the Employee, as described in Section 5 above.
- (e) The Company provide the Employee with notice of the termination of his employment with the Company for conditions other than those described above.
- (f) The Company issues a notice of non-renewal of the term of this Agreement as described in Section 2 herein.

Should the term of the Employee's employment with the Company be terminated pursuant to the terms of Sections 6(e), 6(f) or 9 herein, the Company shall pay to the Employee the Base Salary described in Section 3(a) for a period of eighteen (18) months from the date of such termination.

7. Self-Termination The Employee shall have the right to terminate his employment with the Company for any reason by providing the Company with fifteen (15) days prior written notice. The Company shall have the right to waive any or all of such fifteen (15) day period to accelerate the effective date of the termination of the

employment of the Employee with the Company, by written notice to the Employee. If the Employee elects to so terminate his employment with the Company no sooner than ninety (90) days after the effective date but no later than fifteen (15) calendar months after the Effective Date, the Employee is entitled to severance compensation for twelve (12) months following the effective date of such termination by the payment of Base Salary as described in Section 3(a).

8. Vesting. In the event that the Employee's employment hereunder is terminated under the provisions of Sections 6(e), 6(f) or 7, the Employee shall at the time of termination, completely vest in all rights available under the qualified and non-qualified stock options, which are at the time of the termination granted to the Employee.
9. Rights and Obligations of Successors. In the event that any of the following events occur, a "Change in Control" shall be deemed to occur for the purpose of this Agreement: (a) any person or group of persons acting in concert becomes the beneficial owner, directly or indirectly (excluding ownership by or through employee benefit plans), of securities of the Company representing fifty percent (50%) or more of the combined voting power of the Company's then outstanding securities; (b) the Company is combined (by merger, share exchange, consolidation, or otherwise) with another corporation and as a result of such combination less than seventy five percent (75%) of the outstanding securities of the surviving or resulting corporation are owned in the aggregate by the former shareholders of the Company; or (c) any person or group of persons acting in concert obtains direct or indirect control of the Board of Directors of the Company, other than the current shareholders of the Company. The Employee shall have the right to terminate his employment under the terms of this Agreement for a period of sixty (60) days following the Change in Control. In the event that the Employee shall not so elect to terminate this Agreement, then this agreement shall be assignable and transferable by the Company to any subsidiary or affiliate or to any subsidiary or affiliate of the Company affiliated with the Change in Control and shall inure to the benefit of and be binding upon the Employee and his heirs and personal representatives and the Company and its successors and assigns. In the event the Employee elects to terminate employment, the Employee shall be paid in accordance with Paragraph 6.
10. Covenant Not to Compete. In consideration of the employment hereunder, the Employee hereby agrees that during the term of his employment by the Company and for a period of eighteen (18) months (twelve (12) months in the case of self-termination), following the termination of his employment with the Company, the Employee will not either directly or indirectly own, have proprietary interest (except for less than 5% of any listed company or company traded in the over-the-counter market) of any kind in, be employed by, or serve as a consultant to or in any other capacity for any firm, other than the Company and its subsidiaries, engaged in the distribution of school supplies, equipment, furniture or other products made and distributed by the Company or any of the Company's present or future subsidiary corporations (acquired during the term of this Agreement) during the period of the Employee's employment in the area where they are engaged in business without the express written consent of the Company. The Employee agrees that a breach of the covenant contained herein will result in irreparable and continuing damage to the Company for which there will be no adequate remedy at law and in the event of any breach of such agreement, the Company shall be entitled to injunctive and such other and further relief including damages as may be proper.
11. Notice. All notices, demands and other communications hereunder shall be deemed to have been duly given, if delivered by hand or mailed, certified or registered mail with postage prepaid:

To the Company: School Specialty, Inc.
426 W. College Avenue
P.O. Box 1579
Appleton, WI 54911
Attention: Mr. Daniel P. Spalding
Fax: (920) 882-5863

With a copy to: Joseph F. Franzoi IV, Esq.
Franzoi & Franzoi, S.C.
514 Racine Street
Menasha, WI 54952
Fax: (920) 725-0998

To Employee: Donald J. Noskowiak
2116 North Courtland
Green Bay, WI 54313

or to such other address as the person to whom notice is to be given may have specified in a notice duly given to the sender as provided herein. Such notice, request, claim, demand, waiver, consent, approval or other communication shall be deemed to have been given as of the date so delivered, telefaxed, mailed or dispatched and, if given by any other means, shall be deemed given only when actually received by the addressees.

12. Entire Agreement; Amendment; Waiver. This Agreement (including any documents referred to herein) sets forth the entire understanding of the parties hereto with respect to the subject matter contemplated hereby. Any and all previous agreements and understandings between or among the parties regarding the subject matter hereof, whether written or oral, are superseded by this Agreement. This Agreement shall not be amended or modified except by a written instrument duly executed by each of the parties hereto. Any extension or waiver by any party of any provision hereto shall be valid only if set forth in an instrument in writing signed on behalf of such party.
13. Expenses. Each party hereto will pay their respective fees, expenses and disbursements of their agents, representatives, accountants and counsel incurred in connection with the subject matter of this Agreement, and its enforcement.
14. Governing Law. This Agreement shall in all respects be construed according to the laws of the State of Delaware, without regard to its conflict of laws principles.

IN WITNESS WHEREOF, the parties hereto have cause this Agreement to be duly executed as of the date first written above.

COMPANY: SCHOOL SPECIALTY, INC.

/s/ Daniel P. Spalding

Daniel P. Spalding, Chairman and
Chief Executive Officer

EMPLOYEE:

/s/ Donald J. Noskowiak

Donald J. Noskowiak, Individually

School Specialty
Fiscal 2000
Incentive Program

Executive Plan:

Corporate criteria: 100% on consolidated EBITA

Budget EBITA: \$62,829,000

Payout:

Below budget: \$-0-
At budget: 50% of base salary
Max at Budget + 20%, or \$75,395,000 = 100% of base salary

Specialty/Traditional Companies Plan:

Corporate criteria: 25% based upon consolidated EBITA, as above.

Division criteria: 75% based upon Division performance in three areas:

1. Budget EBITA: Max payout: 37.5% of base salary
Below budget: \$-0-
At budget: 18.75% of base salary
Max: budget + 20% of Division EBITA: 37.5% of base salary
2. Return on Average Operating Assets: Max payout: 18.75% of base salary
Calc: $\text{EBITA}/\text{Gross A/R} + \text{Gross Inv.} + \text{Net F/A} - \text{A/P} =$
Return on Average Operating Assets (RAOA)
(average calculated using month-end balance)

Payout:
0 - 20% RAOA 0
21 - 60% RAOA 0 - 18.75% of base salary

3. Return on Sales: Max payout: 18.75% of base salary
Calc: $\text{EBITA}/\text{Net Sales}$

Payout:
Spec. Co's
7 - 20% Return on Sales: 0 - 18.75% of base salary
Trad. Co.
6 - 12% Return on Sales: 0 - 18.75% of base salary

Example:

Corporate EBITA budget	\$63 million
Spec. Co. EBITA budget	\$10 million
Executive Base Salary	\$100,000

If actual performance is as follows:

EBITA Div.	\$11 million
Avg. Operating Assets	\$28 million
Net Sales	\$61 million
EBITA Corp.	\$68 million

Bonus:

25% Corp. EBITA:	$\$68 - \$63 = \$5 \text{ mil.} = 75\% \times \$100,000 \times 25\% =$	\$18,750
37.5% Div. EBITA:	$\$10 - \$11 = \$1 \text{ mil.} = 75\% \times \$100,000 \times 37.5\% =$	\$28,125
18.75% RAOA:	$11 \text{ mil}/28 \text{ mil} = 40 \text{ RAOA} = 75\% \times \$100,000 \times 18.75\% =$	\$14,063
18.75% Rtn on Sales:	$11 \text{ mil}/61 \text{ mil} = 18\% = 85\% \times \$100,000 \times 18.75\% =$	\$15,938

Total Bonus	\$76,876
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May 17, 1999

<ARTICLE> 5

<LEGEND>

This schedule contains summary financial information extracted from the unaudited 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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