AS FILED WITH THE SECURITIES AND EXCHANGE COMMISSION ON MAY 18, 1998

REGISTRATION NO. 333-47509

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

AMENDMENT NO. 2

TO

FORM S-1
REGISTRATION STATEMENT
UNDER
THE SECURITIES ACT OF 1933

SCHOOL SPECIALTY, INC.
(Exact name of registrant as specified in its charter)

DELAWARE	5112
(State or other jurisdiction of incorporation or organization)	(Primary Standard Industrial Classification Code Number)
DELAWARE	52-2080520
incorporation or organization)	Identification Number)
(State or other jurisdiction of	(I.R.S. Employer

1000 NORTH BLUEMOUND DRIVE
APPLETON, WISCONSIN 54914
(920) 734-2756
(Address, including zip code, and telephone number, including area code, of registrant's principal executive offices)

DANIEL P. SPALDING
CHIEF EXECUTIVE OFFICER
SCHOOL SPECIALTY, INC.
1000 NORTH BLUEMOUND DRIVE
APPLETON, WISCONSIN 54914
(920) 734-2756
(Name, address, including zip code, and telephone number, including area code, of agent for service)

COPIES TO:

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WILMER, CUTLER & PICKERING	SULLIVAN & CROMWELL
2445 M STREET, N.W.	1701 PENNSYLVANIA AVENUE, N.W.
WASHINGTON, D.C. 20037	WASHINGTON, D.C. 20006
TELEPHONE NO. (202) 663-6000	TELEPHONE NO. (202) 956-7500
FACSIMILE NO. (202) 663-6363	FACSIMILE NO. (202) 293-6330

APPROXIMATE DATE OF COMMENCEMENT OF PROPOSED SALE OF SECURITIES TO THE

PUBLIC: As soon as possible after the effective date of this Registration Statement.

If any of the securities being registered on this Form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933, check the following box. / /

If this form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, please check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the offering. / /_______

If this form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. / /_______

If this Form is a post-effective amendment filed pursuant to Rule 462(d) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. / /_______

If delivery of the prospectus is expected to be made pursuant to Rule 434, please check the following box. / /

CALCULATION OF REGISTRATION FEE

TITLE OF SECURITIES TO BE REGISTERED	AMOUNT TO BE REGISTERED(1)	PROPOSED MAXIMUM OFFERING PRICE PER SHARE	PROPOSED MAXIMUM AGGREGATE OFFERING PRICE	AMOUNT OF REGISTRATION FEE(3)
Common Stock, par value $.001 per share.....	2,443,750	$16(2)	$39,100,000(2)	$11,535

(1) Includes 318,750 shares subject to an option to purchase that may be exercised by the underwriters solely to cover over-allotments, if any.

(2) Estimated solely for the purpose of calculating the registration fee in accordance with Rule 457(a) of the Securities Act, based on the high end of the range of the estimated initial public offering price.

(3) The Company has previously paid the Securities and Exchange Commission the registration fee of $14,750 in connection with the initial filing of this registration statement.

THE REGISTRANT HEREBY AMENDS THIS REGISTRATION STATEMENT ON SUCH DATE OR DATES AS MAY BE NECESSARY TO DELAY ITS EFFECTIVE DATE UNTIL THE REGISTRANT SHALL FILE A FURTHER AMENDMENT WHICH SPECIFICALLY STATES THAT THIS REGISTRATION STATEMENT SHALL THEREAFTER BECOME EFFECTIVE IN ACCORDANCE WITH SECTION 8(A) OF THE SECURITIES ACT OF 1933 OR UNTIL THE REGISTRATION STATEMENT SHALL BECOME

EFFECTIVE ON SUCH DATE AS THE COMMISSION, ACTING PURSUANT TO SAID SECTION 8(A), MAY DETERMINE.

SUBJECT TO COMPLETION, DATED MAY 18, 1998

2,125,000 SHARES

INFORMATION CONTAINED HEREIN IS SUBJECT TO COMPLETION OR AMENDMENT. A REGISTRATION STATEMENT RELATING TO THESE SECURITIES HAS BEEN FILED WITH THE SECURITIES AND EXCHANGE COMMISSION. THESE SECURITIES MAY NOT BE SOLD NOR MAY OFFERS TO BUY BE ACCEPTED PRIOR TO THE TIME THE REGISTRATION STATEMENT BECOMES EFFECTIVE. THIS PROSPECTUS SHALL NOT CONSTITUTE AN OFFER TO SELL OR THE SOLICITATION OF AN OFFER TO BUY NOR SHALL THERE BE ANY SALE OF THESE SECURITIES IN ANY STATE IN WHICH SUCH OFFER, SOLICITATION OR SALE WOULD BE UNLAWFUL PRIOR TO REGISTRATION OR QUALIFICATION UNDER THE SECURITIES LAWS OF ANY SUCH STATE.

[LOGO] SCHOOL SPECIALTY, INC.

COMMON STOCK

(PAR VALUE $.001 PER SHARE)

In addition to the 2,125,000 shares being offered, School Specialty is selling 250,000 shares directly to Daniel P. Spalding, the Chairman of the Board and its Chief Executive Officer, David J. Vander Zanden, its President and Chief Operating Officer, and Donald Ray Pate, Jr., its Executive Vice President for Re-Print. The Underwriters will not participate in, or receive any discount or commission on, the sale of the Common Stock to these officers.

All of the shares of Common Stock offered hereby are being sold by the Company. Prior to this offering, there has been no public market for the Common Stock of the Company. It is currently estimated that the initial public offering price per share will be between $14.00 and $16.00. For factors to be considered in determining the initial public offering price, see "Underwriting".

SEE "RISK FACTORS" ON PAGE 8 FOR CERTAIN CONSIDERATIONS RELEVANT TO AN INVESTMENT IN THE COMMON STOCK.

Application has been made for quotation of the Common Stock on the Nasdaq National Market under the symbol "ABCZ".

THESE SECURITIES HAVE NOT BEEN APPROVED OR DISAPPROVED BY THE SECURITIES AND EXCHANGE COMMISSION OR ANY STATE SECURITIES COMMISSION NOR HAS THE SECURITIES AND EXCHANGE COMMISSION OR ANY STATE SECURITIES COMMISSION PASSED UPON THE ACCURACY OR ADEQUACY OF THIS PROSPECTUS. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

	INITIAL PUBLIC OFFERING PRICE	UNDERWRITING DISCOUNT(1)	PROCEEDS TO COMPANY(2)
Per Share	$	$	$
Total(3)	$	$	$

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(1) The Company has agreed to indemnify the Underwriters against certain liabilities, including liabilities under the Securities Act of 1933.

(2) Before deducting estimated expenses of $1,500,000 payable by the Company. Proceeds to the Company does not include proceeds of $ to be received from the direct sale by School Specialty of 250,000 shares to Messrs. Spalding, Vander Zanden and Pate at $ per share, the initial public offering price less the underwriting discount.

(3) The Company has granted the Underwriters an option for 30 days to purchase up to an additional 318,750 shares at the initial public offering price per share, less the underwriting discount, solely to cover over-allotments. If such option is exercised in full, the total initial public offering price, underwriting discount and proceeds to Company will be $, $, and $, respectively. See "Underwriting".

The shares offered hereby are offered severally by the Underwriters, as specified herein, subject to receipt and acceptance by them and subject to their right to reject any order in whole or in part. It is expected that certificates for the shares will be ready for delivery in New York, New York, on or about June , 1998, against payment therefor in immediately available funds.

GOLDMAN, SACHS & CO.

NATIONSBANC MONTGOMERY SECURITIES LLC

SALOMON SMITH BARNEY

PIPER JAFFRAY INC.

The date of this Prospectus is June , 1998.

PICTURES TO COME

CERTAIN PERSONS PARTICIPATING IN THIS OFFERING MAY ENGAGE IN TRANSACTIONS THAT STABILIZE, MAINTAIN OR OTHERWISE AFFECT THE PRICE OF THE COMMON STOCK, INCLUDING OVER- ALLOTMENT, STABILIZING AND SHORT-COVERING TRANSACTIONS IN SUCH SECURITIES, AND THE IMPOSITION OF A PENALTY BID, IN CONNECTION WITH THE OFFERING. FOR A DESCRIPTION OF THESE ACTIVITIES, SEE "UNDERWRITING".

SUMMARY

THE FOLLOWING SUMMARY IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO THE MORE

DETAILED INFORMATION AND FINANCIAL INFORMATION APPEARING ELSEWHERE IN THIS PROSPECTUS. PROSPECTIVE INVESTORS SHOULD READ THE PROSPECTUS IN ITS ENTIRETY. UNLESS THE CONTEXT REQUIRES OTHERWISE, REFERENCES TO THE COMPANY INCLUDE ITS SUBSIDIARIES. UNLESS OTHERWISE INDICATED, THE INFORMATION CONTAINED IN THIS PROSPECTUS ASSUMES: (I) CONSUMMATION OF THE TRANSACTIONS DESCRIBED UNDER "THE SPIN-OFF FROM U.S. OFFICE PRODUCTS;" (II) AN INITIAL PUBLIC OFFERING PRICE OF $15.00 PER SHARE OF COMMON STOCK (REPRESENTING THE MIDPOINT OF THE ESTIMATED PRICE RANGE); (III) A DISTRIBUTION RATIO OF ONE SHARE OF SCHOOL SPECIALTY COMMON STOCK FOR EVERY NINE SHARES OF COMMON STOCK (THE "DISTRIBUTION RATIO") OF U.S. OFFICE PRODUCTS COMPANY ("U.S. OFFICE PRODUCTS"), AND (IV) NO EXERCISE OF THE UNDERWRITERS' OVER-ALLOTMENT OPTION.

THE COMPANY

School Specialty, Inc. (the "Company" or "School Specialty") believes that it is the largest U.S. distributor focusing on non-textbook educational supplies and furniture for grades pre-kindergarten through 12 ("pre-K-12"). The Company provides a comprehensive offering of high quality educational supplies and furniture to school districts, school administrators and teachers through the broad distribution of its catalogs. School Specialty distributes general school supplies, including classroom and art supplies, instruction materials, furniture and equipment. The Company also distributes supplies and furniture for certain educational disciplines, including early childhood education under the Childcraft name, art supplies under the Sax Arts & Crafts name and library-related products under the Gresswell name. In order to broaden its geographic presence and product offering, the Company has acquired 15 companies since May 1996. For the twelve months ended January 24, 1998, the Company's revenues aggregated $279.6 million and operating income aggregated $19.7 million, which represented compound annual increases of 32% and 62%, respectively, over revenues and operating income for the year ended December 31, 1994. For the twelve months ended January 24, 1998, the Company's pro forma revenues (giving effect to all acquisitions made since the beginning of such period) aggregated $377.2 million and pro forma operating income aggregated $23.7 million, which represented compound annual increases of 45% and 71%, respectively, over revenues and operating income for the year ended December 31, 1994.

With over 32,000 stock keeping units ("SKUs"), School Specialty offers customers one source for virtually all of their non-textbook school supply and furniture needs. School Specialty markets its products through an innovative two-pronged approach, targeting both administrators and teachers to cover the full spectrum of decision makers. The Company's "top down" approach, utilizing its 290 sales representatives and its School Specialty general supply and furniture catalog (the "School Specialty Catalog"), focuses on procurement officials at the state, regional and local levels, while its "bottom up" approach focuses on curriculum specialists and teachers. Sales to curriculum specialists and over 2.1 million teachers are made primarily through the 6.3 million general supply catalogs of The Re-Print Corp. ("Re-Print") and specialty catalogs that are mailed each year.

The Company believes that annual sales of non-textbook educational supplies and equipment to the school supply market aggregate approximately $6.1 billion, with over $3.6 billion sold to institutions and $2.5 billion sold to consumers. The Company also believes there are over 3,400 distributors of school supplies, the majority of which are family- or employee-owned companies with revenues under $20 million that operate in a single region. The Company believes the demand for timely order fulfillment at competitive prices, combined with the need to invest in automated inventory and electronic ordering systems, is accelerating the trend toward consolidation in the industry. School Specialty also believes

that it is well positioned to capitalize on this consolidation as the largest distributor in its industry with annual revenues which it believes exceed those of its next two largest competitors combined. Although the Company is the largest distributor in the industry, its share of the $6.1 billion school supply market is less than 6%, giving the Company substantial growth opportunities.

The volume of school supplies is directly influenced by the size of the student population. Kindergarten through 12th grade ("K-12") student enrollment reached an all-time peak in 1996 with 51.5 million students and the U.S. Department of Education projects that student enrollment will continue to grow to 54.3 million by the year 2006. As a result of these trends, the U.S. Department of Education projects that expenditures in public elementary and secondary schools will continue to rise through the year 2007. These rising expenditures include a projected increase in total per pupil spending in current dollars from $5,961 per pupil in 1997 to $7,179 by the year 2001. The Company believes that as the largest U.S. distributor of non-textbook educational supplies it will be a major beneficiary of this growth in expenditures.

KEY STRENGTHS

School Specialty attributes its strong competitive position to the following key strengths:

LEADING MARKET POSITION. The Company has developed its leading market position over its 38 year history by emphasizing high quality products, superior order fulfillment, exceptional customer service and brand name recognition. The Company believes its annual revenues exceed those of its next two largest competitors combined and that its large size and brand recognition have resulted in significant buying power, economies of scale and customer loyalty.

BROAD PRODUCT LINE. School Specialty's strategy is to provide a full range of high quality products to meet the complete supply needs of pre-K-12 schools and as a result currently offers over 32,000 SKUs ranging from classroom supplies to playground equipment. School Specialty offers customers one source for virtually all of their school supply needs.

INNOVATIVE TWO-PRONGED DISTRIBUTION. The Company targets administrative decision makers with a "top down" approach through its 290 person sales force and School Specialty Catalog, and teachers and curriculum specialists with a "bottom up" approach primarily through the 6.3 million Re-Print general supply, and specialty catalogs mailed each year.

ABILITY TO INTEGRATE ACQUISITIONS. School Specialty has successfully completed the acquisition of 20 companies since 1991, 15 of which have been acquired since May 1996. The Company believes that it can generate significant economies of scale and rapidly improve the margins of acquired entities, as well as increase sales, by channeling acquired entities products through its broad distribution network. See "Business--Company Strengths".

USE OF TECHNOLOGY. The Company believes that through the utilization of technology in areas such as (i) purchasing and inventory management, (ii) customer order fulfillment, and (iii) database management, School Specialty is able to turn inventory more quickly than competitors, offer customers more convenient and cost effective product ordering methods and conduct more precisely targeted sales and marketing campaigns.

EXPERIENCED MANAGEMENT. School Specialty's management team provides depth and continuity of experience. Management's interests are aligned with those of its shareholders as management's incentive-based compensation is tied to School Specialty's operating profitability.

GROWTH STRATEGY

School Specialty's objective is to further enhance its position as the leading distributor of non-textbook educational supplies through the continued implementation of the following strategies:

PURSUE ACQUISITIONS AGGRESSIVELY. The Company believes that there are extensive acquisition opportunities among the over 3,400 school distributors in the U.S. The Company intends to pursue two types of acquisitions: (i) general school supply and furniture companies in geographic markets in which the Company has a limited presence, and (ii) specialty companies focusing on disciplines such as physical education, science, technology and music.

IMPROVE PROFITABILITY. School Specialty improved its operating margin from 3.7% in 1994 to 7.0% for the twelve months ended January 24, 1998. School Specialty believes that there are substantial opportunities to further improve margins by (i) increasing the efficiency of recent acquisitions, (ii) expanding purchasing power and (iii) improving warehousing and distribution.

PENETRATE NEW MARKETS AND EXPAND CUSTOMER BASE IN EXISTING MARKETS. School Specialty believes that it can increase revenues by adding sales representatives in geographic markets in which the Company does not have a significant presence. In addition, the Company believes that it can further increase revenues by cross merchandising its specialty product lines to its general supplies customers.

RECENT DEVELOPMENTS

On March 20, 1998, the Company acquired the catalog division of Education Access, a catalog reseller of technology solutions for the K-12 education market. This new product line will offer curriculum software, productivity software, peripherals, networking products and other related products through catalogs mailed twice a year.

THE OFFERING

Common Stock Offered by the Company..........	2,125,000 Shares
Proposed Nasdaq National Market symbol.......	ABCZ
Use of proceeds..............................	To repay a portion of indebtedness to be incurred to refinance amounts payable to U.S. Office Products Company. After such repayment, approximately $200 million will be available under the Company's credit facility (subject to compliance with financial covenants), which may be used for general corporate purposes, including working capital, and for acquisitions.

THE SPIN-OFF FROM U.S. OFFICE PRODUCTS

Concurrently with this Offering, 12,299,593 shares of School Specialty Common Stock will be distributed to the stockholders of U.S. Office Products as of June 9, 1998 (the "School Specialty Distribution" or the "Distribution"). The School Specialty Distribution is part of a comprehensive restructuring plan adopted by the U.S. Office Products Board of Directors (the "Strategic Restructuring Plan") in which U.S. Office Products is spinning off all of the shares of School Specialty and three other companies that will conduct U.S. Office Products' current print management, technology solutions and corporate travel services businesses. (These spin-offs are collectively referred to as the "Distributions", and School Specialty and the three other such companies are collectively referred to as the "Spin-Off Companies".) The effective time of the Distribution is expected to be 12:01 a.m. on June 10, 1998 (the "Distribution Date"). See "The Spin-Off from U.S. Office Products".

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

	HISTORICAL(1)				
	FISCAL YEAR ENDED DECEMBER 31,		FOUR MONTHS ENDED APRIL 30,	FISCAL YEAR ENDED APRIL 26,	NINE MONTHS ENDED JANUARY 25,
	1994	1995	1996	1997	1997
STATEMENT OF INCOME DATA:					
Revenues..............	$119,510	$150,482	$28,616	$191,746	$159,977
Cost of revenues......	87,750	105,757	20,201	136,577	114,380
Gross profit..........	31,760	44,725	8,415	55,169	45,597
Selling, general and administrative expenses............	27,281	39,869	10,307	43,462	33,396
Non-recurring acquisition costs...			1,122	1,792	1,792
Restructuring costs...		2,532		194	
Operating income (loss)..............	4,479	2,324	(3,014)	9,721	10,409
Interest expense......	3,007	5,536	1,461	4,197	3,358
Interest income.......			(6)		(101)
Other (income) expense.............	(86)	(18)	67	(196)	(204)
Income (loss) before provision for (benefit from) income taxes........	1,558	(3,194)	(4,536)	5,720	7,356
Provision for (benefit from) income taxes(4)............	218	173	139	(2,412)	3,750
Net income (loss).....	$ 1,340	$ (3,367)	$(4,675)	$ 8,132	$ 3,606
Net income (loss) per share(5):					
Basic.............	$ 0.26	$ (0.51)	$ (0.54)	$ 0.81	$ 0.38
Diluted...........	$ 0.26	$ (0.50)	$ (0.53)	$ 0.80	$ 0.37
Weighted average shares outstanding(5):					
Basic.............	5,062	6,562	8,611	10,003	9,553
Diluted...........	5,078	6,669	8,789	10,196	9,758

			PRO FORMA(2)			
		TWELVE MONTHS ENDED	FISCAL YEAR ENDED APRIL 26,	NINE MONTHS ENDED		TWELVE MONTHS ENDED
	JANUARY 24, 1998	JANUARY 24, 1998(3)	1997	JANUARY 25, 1997	JANUARY 24, 1998	JANUARY 24, 1998(3)
STATEMENT OF INCOME DATA:						
Revenues..............	$247,880	$279,649	$350,760	$292,244	$318,667	$377,183
Cost of revenues......	176,501	198,698	244,396	203,705	227,485	268,176
Gross profit..........	71,379	80,951	106,364	88,539	91,182	109,007
Selling, general and administrative expenses............	50,999	61,065	85,430	66,926	66,623	85,127
Non-recurring acquisition costs...			1,792	1,792		
Restructuring costs...		194	194			194
Operating income (loss)..............	20,380	19,692	18,948	19,821	24,559	23,686
Interest expense......	4,100	4,939	7,300	5,535	5,535	7,300
Interest income.......	(109)	(8)				

Other (income) expense	441	449	(158)	(174)	522	538
Income (loss) before provision for (benefit from) income taxes	15,948	14,312	11,806	14,460	18,502	15,848
Provision for (benefit from) income taxes(4)	7,113	952	92	6,651	8,511	1,952
Net income (loss)	$ 8,835	$ 13,350	$ 11,714	$ 7,809	$ 9,991	$ 13,896
Net income (loss) per share(5):						
Basic	$ 0.69	$ 1.08	$ 0.95	$ 0.63	$ 0.81	$ 1.13
Diluted	$ 0.68	$ 1.06	$ 0.95	$ 0.63	$ 0.81	$ 1.13
Weighted average shares outstanding(5):						
Basic	12,751	12,401	12,300	12,300	12,300	12,300
Diluted	13,020	12,642	12,300	12,300	12,300	12,300

	DECEMBER 31,	
	1994	1995
BALANCE SHEET DATA:		
Working capital (deficit)	$ 3,512	$ (1,052)
Total assets	44,267	54,040
Long-term debt, less current portion	11,675	15,294
Long-term payable to U.S. Office Products		
Stockholder's (deficit) equity	1,827	(620)

	APRIL 30, 1996	APRIL 26, 1997
BALANCE SHEET DATA:		
Working capital (deficit)	$ (3,663)	$ 14,460
Total assets	54,573	87,685
Long-term debt, less current portion	15,031	566
Long-term payable to U.S. Office Products		33,226
Stockholder's (deficit) equity	(4,267)	16,329

	JANUARY 24, 1998	
	ACTUAL	PRO FORMA(6)
BALANCE SHEET DATA:		
Working capital (deficit)	$ 43,613	$ 60,586
Total assets	201,207	204,457
Long-term debt, less current portion	385	82,978
Long-term payable to U.S. Office Products	62,470	
Stockholder's (deficit) equity	98,492	98,492

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(1) The historical financial information of the businesses that were acquired in business combinations accounted for under the pooling-of-interests method (the "Pooled Companies") have been combined on a historical cost basis in accordance with generally accepted accounting principles ("GAAP") to present this financial data as if the Pooled Companies had always been members of the same operating group. The financial information of the businesses acquired in the business combinations accounted for under the purchase method is included from the dates of their respective acquisitions.

(2) The pro forma financial data give effect to the refinancing of all amounts payable to U.S. Office Products and the purchase acquisitions completed by the Company since May 1, 1996 as if all such transactions had occurred on May 1, 1996. The pro forma statement of income data are not necessarily

indicative of the operating results that would have been achieved had these events actually then occurred and should not be construed as representative of future operating results.

(3) The results for the historical and pro forma 12 months ended January 24, 1998 have been calculated based upon the historical and pro forma results for the fiscal year ended April 26, 1997 less the historical and pro forma results for the nine months ended January 25, 1997 plus the historical and pro forma results for the nine months ended January 24, 1998, respectively.

(4) Results for the fiscal year ended April 26, 1997 and the 12 months ended January 24, 1998 (historical and pro forma) include a benefit from income taxes of $2.4 million primarily arising from the reversal of a $5.3 million valuation allowance in the quarter ended April 26, 1997. The valuation allowance had been established in fiscal 1995 to offset the tax benefit from net operating loss carryforwards included in the Company's deferred tax assets, because at the time it was not likely that such tax benefit would be realized. The valuation allowance was reversed subsequent to the Company's being acquired by U.S. Office Products, because it was deemed "more likely than not", based on improved results, that such tax benefit would be realized.

(5) For calculation of the pro forma weighted average shares outstanding for the fiscal year ended April 26, 1997 and for the nine months ended January 24, 1998 and January 25, 1997, see Note 2(k) of Notes to Pro Forma Combined Financial Statements included herein. The pro forma weighted average shares outstanding (basic and diluted), as further adjusted to give effect to the sales of shares to Messrs. Spalding, Vander Zanden and Pate and in the Offering, would have been 14.7 million shares for all periods for which pro forma data are given, and the pro forma net income per share, as so adjusted further and to give effect to the use of the proceeds from such sales to reduce debt, would have been:

	FISCAL YEAR ENDED APRIL 26, 1997	NINE MONTHS ENDED JANUARY 25, 1997
Pro forma net income per share, as adjusted:		
Basic	$ 0.90	$ 0.61
Diluted	$ 0.90	$ 0.61

	JANUARY 24, 1998	TWELVE MONTHS ENDED JANUARY 24, 1998
Pro forma net income per share, as adjusted:		
Basic	$ 0.76	$ 1.05
Diluted	$ 0.76	$ 1.05

(6) The pro forma balance sheet data give effect to (i) the refinancing of all amounts payable to U.S. Office Products, (ii) the purchase acquisition of Education Access, the only acquisition completed by the Company subsequent to January 24, 1998, and (iii) the Distribution as if such transactions had occurred on January 24, 1998. The pro forma balance sheet data are not necessarily indicative of the financial position that would have been achieved had these events actually then occurred and should not be construed

as representative of future financial position.

RISK FACTORS

THE FOLLOWING FACTORS SHOULD BE CONSIDERED IN ADDITION TO OTHER INFORMATION INCLUDED IN THIS PROSPECTUS.

POTENTIAL VOLATILITY OF STOCK PRICE; RISKS ASSOCIATED WITH SHARES ELIGIBLE FOR IMMEDIATE SALE

As a result of the School Specialty Distribution, stockholders of U.S. Office Products will acquire 12,299,593 shares of School Specialty Common Stock that will be freely tradeable at the time of this Offering without restrictions or further registration under the Securities Act of 1933, as amended (the "Securities Act"), except that any shares held by "affiliates" of School Specialty within the meaning of the Securities Act will be subject to the resale limitations of Rule 144 promulgated under the Securities Act ("Rule 144"). Because the School Specialty Distribution is being made to existing shareholders of U.S. Office Products, who have not made an affirmative decision to invest in School Specialty Common Stock, there can be no assurance that some or all of these shareholders will not sell the shares of School Specialty Common Stock into the market shortly after the School Specialty Distribution. In addition, U.S. Office Products is included in certain broad-based indices tracked by a number of investment companies and other institutional investors, and such investors can be expected to sell the shares of School Specialty Common Stock they receive in the School Specialty Distribution shortly thereafter.

In addition, upon completion of this Offering and the School Specialty Distribution, School Specialty will have outstanding (i) 2,125,000 shares of School Specialty Common Stock issued in this Offering and (ii) 250,000 shares of School Specialty Common Stock issued to Messrs. Spalding, Vander Zanden and Pate. Following this Offering and the School Specialty Distribution, in view of the large number of shares freely-tradeable and available for immediate sale, the market for School Specialty's Common Stock could be highly volatile and could adversely affect the trading price of School Specialty Common Stock. See "Management--Director Compensation and Other Arrangements". Officers and directors of School Specialty who will hold an aggregate of 114,355 shares of School Specialty Common Stock after the Distribution have agreed not to sell or otherwise dispose of any School Specialty Common Stock without the prior written consent of the Underwriters for a period of 180 days from the date of this Prospectus (the "Lock-Up Agreements"). The Company intends to register the shares of School Specialty Common Stock reserved for issuance pursuant to its stock option plan as soon as practicable after the closing of this Offering.

POTENTIAL LIABILITY FOR TAXES RELATED TO THE DISTRIBUTIONS

In connection with the Distributions, U.S. Office Products will enter into a tax allocation agreement with School Specialty and the other Spin-Off Companies (the "Tax Allocation Agreement") which will provide that the Spin-Off Companies will jointly and severally indemnify U.S. Office Products for any losses associated with taxes related to the Distributions ("Distribution Taxes") if an action or omission (an "Adverse Tax Act") of any of the Spin-Off Companies materially contributes to a final determination that any or all of the Distributions are taxable. School Specialty will also enter into a tax indemnification agreement with the other Spin-Off Companies (the "Tax Indemnification Agreement") under which the Spin-Off Company that is responsible for the Adverse Tax Act will indemnify the other Spin-Off Companies for any liability to indemnify U.S. Office Products under the Tax Allocation Agreement. As a consequence, School Specialty will be liable for any Distribution Taxes resulting from any Adverse Tax Act by School Specialty and liable (subject to

indemnification by the other Spin-Off Companies) for any Distribution Taxes resulting from an Adverse Tax Act by the other Spin-Off Companies. If there is a final determination that any or all of the Distributions are taxable and it is determined that there has not been an Adverse Tax Act by either U.S. Office Products or any of the Spin-Off Companies, U.S. Office Products and each of the Spin-Off Companies will be liable for its pro rata portion of the Distribution Taxes based on the value of each company's common stock after the Distributions. As a result, School Specialty could become liable for a pro rata portion of Distribution Taxes with respect not only to the School

Specialty Distribution, but also any of the other Distributions. See "The Spin-Off from U.S. Office Products--Tax Allocation Agreement and Tax Indemnification Agreement" and "The Spin-Off from U.S. Office Products--U.S. Federal Income Tax Consequences of the Distributons" for a detailed discussion of the Tax Allocation Agreement and the Tax Indemnification Agreement and the U.S. Federal Income Tax consequences of the Distributions.

RISKS RELATED TO ALLOCATION OF CERTAIN LIABILITIES

Under the Distribution Agreement, School Specialty will be liable for (i) any liabilities arising out of or in connection with the business conducted by it or its subsidiaries, (ii) its liabilities under the Employee Benefits Agreement, Tax Allocation Agreement and related agreements described under "The Spin-Off From U.S. Office Products", (iii) the U.S. Office Products debt that has been allocated to the Company (see "The Spin-Off From U.S. Office Products--Distribution Agreement--Debt"), (iv) liabilities under the securities laws relating to this Prospectus and portions of the Information Statement/Prospectus distributed to stockholders of U.S. Office Products in connection with the School Specialty Distribution, as well as other securities law liabilities related to the School Specialty business that arise from information supplied to U.S. Office Products (or that should have been supplied, but was not) by School Specialty, (v) U.S. Office Products' liabilities for earn-outs from acquisitions in respect of School Specialty and its subsidiaries, (vi) School Specialty's costs and expenses related to the Offering and its bank financing, and (vii) $1.0 million of the transaction costs (including legal, accounting, investment banking and financial advisory) and other fees incurred by U.S. Office Products in connection with its Strategic Restructuring Plan. Each of the other Spin-Off Companies will be similarly obligated to U.S. Office Products. School Specialty and the other Spin-Off Companies have also agreed to bear a pro rata portion of U.S. Office Products' liabilities under the securities laws (other than claims relating solely to a specific Spin-Off Company or relating specifically to the continuing businesses of U.S. Office Products) and U.S. Office Products' general corporate liabilities (other than debt, except for that specifically allocated to the Spin-Off Companies) incurred prior to the Distributions (i.e., liabilities not related to the conduct of a particular distributed or retained subsidiary's business) (the "Shared Liabilities"). If one of the Spin-Off Companies defaults on an obligation owed to U.S. Office Products, the non-defaulting Spin-Off Companies will be obligated on a pro rata basis to pay such obligation ("Default Liability"). As a result of the Shared Liabilities and Default Liability, School Specialty could be obligated to U.S. Office Products in respect of obligations and liabilities not related to its business or operations and over which neither it nor its management has or has had any control or responsibility. The aggregate of the Shared Liabilities and Default Liability for which any Spin-Off Company may be liable is, however, limited to $1.75 million. The Company's pro rata share of Shared Liabilities and Default Liability is described below under "The Spin-Off from U.S. Office Products--The Distribution Agreement--Liabilities." Also see "--Potential Liability for Taxes Related to the Distributions".

RISKS RELATED TO INTEGRATION OF OPERATIONS AND ACQUISITIONS

An important element of School Specialty's business strategy for its distribution divisions is to integrate its acquisitions into its existing

operations. There can be no assurance that School Specialty will be able to integrate future acquisitions in a timely manner without substantial costs, delays, or other problems. Once integrated, acquisitions may not achieve sales, profitability, and asset productivity commensurate with School Specialty's existing divisions. In addition to integration risks for distribution divisions, acquisitions of both distribution divisions and specialty brand companies involve a number of special risks, including adverse short-term effects on School Specialty's reported operating results (including those adverse short-term effects caused by severance payments to employees of acquired companies, restructuring charges associated with the acquisitions and other expenses associated with a change of control, as well as non-recurring acquisition costs including accounting and legal fees, investment banking fees, recognition of transaction-related obligations, and various other acquisition-related costs), the diversion of management's time and attention, the dependence on retaining, hiring,

and training key personnel, the amortization of acquired intangible assets, and risks associated with unanticipated problems or liabilities, some or all of which could have a material adverse effect on School Specialty's operations and financial condition. Furthermore, although School Specialty conducts due diligence and generally requires representations, warranties, and indemnifications from the former owners of acquired companies, there can be no assurance that such owners will have accurately represented the financial and operating conditions of their companies. If an acquired company's financial or operating results were misrepresented, the acquisition could have a material adverse effect on the results of operations and financial condition of School Specialty. See "Business--Company Growth Strategy--Pursue Acquisitions Aggressively".

DEPENDENCE UPON ACQUISITIONS FOR FUTURE GROWTH

One of School Specialty's strategies is to increase its revenues and the markets it serves through the acquisition of additional school supply distribution businesses. There can be no assurance that suitable candidates for acquisitions can be identified or, if suitable candidates are identified, that acquisitions can be completed on acceptable terms, if at all. There can be no assurance that future acquisitions will prove profitable at the time of their acquisition or will achieve sales and profitability that justify the investment therein. The failure to complete acquisitions and continue its expansion could have a material adverse effect on School Specialty's financial condition. In addition, prior to the School Specialty Distribution, School Specialty's acquisitions were completed with substantial business, legal, and accounting assistance from U.S. Office Products, and some of the acquisitions were paid for with U.S. Office Products Common Stock. The pace of School Specialty's acquisition program may be adversely affected by the absence of U.S. Office Products' support for the acquisitions. Also, School Specialty intends to use School Specialty Common Stock to pay for a portion of the consideration for its acquisitions, and therefore, if the owners of potential acquisition candidates are not willing to receive, or School Specialty is not able to issue, shares of School Specialty Common Stock in exchange for their business, School Specialty's acquisition program could be adversely affected. Furthermore, the Company's ability to pay for acquisitions with stock may be materially limited in the two-year period following the School Specialty Distribution. See "--Possible Limitations on Issuances of Common Stock".

POSSIBLE LIMITATIONS ON ISSUANCES OF COMMON STOCK

Section 355(e) of the Internal Revenue Code of 1986, as amended (the "Code"), which was added in 1997, generally provides that a company that distributes shares of a subsidiary in a spin-off that is otherwise tax-free will incur U.S. federal income tax liability if 50% or more, by vote or value, of the capital stock of either the company making the distribution or the spun-off subsidiary is acquired by one or more persons acting pursuant to a plan or series of related transactions that includes the spin-off. Stock acquired by certain related persons is aggregated in determining whether the 50% test is

met. There is a presumption that any acquisition occurring two years before or after the spin-off is pursuant to a plan that includes the spin-off. However, the presumption may be rebutted by establishing that the spin-off and such acquisition are not part of a plan or series of related transactions. As a result of the provisions of Section 355(e), there can be no assurance that issuances of stock by School Specialty, including issuances in connection with an acquisition of another business by School Specialty, will not create a tax liability for U.S. Office Products. This limitation could adversely affect the pace of School Specialty's acquisitions and its ability to issue Common Stock for other purposes, including equity offerings.

School Specialty has entered into the Tax Allocation Agreement and the Tax Indemnification Agreement pursuant to which School Specialty will be liable to U.S. Office Products and the other Spin-Off Companies if its actions or omissions materially contribute to a final determination that the School Specialty Distribution is taxable. See "--Potential Liability for Taxes Related to the Distributions" and "The Spin-Off From U.S. Office Products--Tax Allocation Agreement and Tax Indemnification Agreement."

RISKS RELATED TO INABILITY TO USE POOLING-OF-INTERESTS METHOD TO ACCOUNT FOR FUTURE ACQUISITIONS

Generally accepted accounting principles require that an entity be autonomous for a period of two years before it is eligible to complete business combinations under the pooling-of-interests method. As a result of School Specialty being a wholly-owned subsidiary of U.S. Office Products prior to the Distribution, School Specialty will be unable to satisfy this criterion for a period of two years following the Distribution. Therefore, School Specialty will be precluded from completing business combinations under the pooling-of-interests method for a period of two years and any business combinations completed by School Specialty during such period will be accounted for under the purchase method resulting in the recording of goodwill. See "--Material Amount of Goodwill".

SEASONALITY: FLUCTUATIONS IN QUARTERLY OPERATING RESULTS

School Specialty's business is subject to seasonal influences, with sales and profitability substantially higher from May to October due to increased school orders during these months. As a result of this seasonality, historically, School Specialty has earned more than 100% of its annual net income in the first six months of its fiscal year and has historically operated at a loss in its third fiscal quarter. Also, quarterly results may be materially affected by the timing of acquisitions and the timing and magnitude of acquisition assimilation costs. Therefore, operating results for any quarter are not necessarily indicative of the results that may be achieved for any subsequent fiscal quarter or full fiscal year. Fluctuations caused by variations in quarterly results may adversely affect the market price of the School Specialty Common Stock. See "Management's Discussion and Analysis of Financial Condition and Results of Operations" and "Business".

RELIANCE ON KEY PERSONNEL

School Specialty's operations depend on the continued efforts of Daniel P. Spalding, its Chief Executive Officer, its other executive officers, and the senior management of certain of its subsidiaries. Furthermore, School Specialty's operations will likely depend on the senior management of certain of the companies that may be acquired in the future. If any of these people become unable to continue in his or her present role, or if School Specialty is unable to attract and retain other skilled employees, its business could be adversely affected. School Specialty does have employment contracts with some Named Officers, as defined herein, but most of the Companies' executive officers and senior management do not have employment contracts with School Specialty. See "Management--Director Compensation and Other Arrangements". School Specialty does not have and does not intend to obtain key man life insurance covering any of its executive officers or other members of senior management of its

subsidiaries. In addition, Jonathan J. Ledecky will serve as a director and an employee of School Specialty and is expected to provide services to School Specialty after the School Specialty Distribution pursuant to an agreement entered into between Mr. Ledecky and U.S Office Products which provides that the Company and the other Spin-Off Companies will succeed to certain rights of, and obligations under, such agreement following the Distribution and an expected employment agreement with School Specialty. See "Management--Director Compensation and Other Arrangements". Mr. Ledecky will also serve as a director of each of the other Spin-Off Companies, and is the director or an officer of other public companies. Mr. Ledecky may be unable to devote substantial time to the activities of School Specialty.

DEPENDENCE ON SYSTEMS

School Specialty believes that one of the competitive advantages of its distribution divisions is its information systems, including its proprietary PC-based customer Order Management System ("OMS"). School Specialty's operations in each of its integrated divisions under School Specialty are generally

dependent on these systems, which are run on a host system located at School Specialty's headquarters in Appleton, Wisconsin. Each division of School Specialty is linked to School Specialty's host system and disruption or unavailability of these links could have a material adverse effect on School Specialty's business and results of operations.

None of School Specialty's subsidiaries has a redundant computer system or a redundant dedicated communication line. School Specialty has taken precautions to protect itself from events that could interrupt its operations. Notwithstanding these precautions, there can be no assurance that a fire, flood or other natural disaster affecting School Specialty's system or its communication lines would not disable the system or prevent the system from communicating with School Specialty's divisions or the specialty brand subsidiaries. The occurrence of any of these events would have a material adverse effect on School Specialty's operations and financial condition.

School Specialty does not expect that it will incur any material costs and expenses to meet information standards for Year 2000 compliance; however, there is no assurance that School Specialty's customers or vendors meet information standards for Year 2000 compliance, and their failure to meet such standards could adversely affect School Specialty's revenues and product costs.

RISK OF RAPID GROWTH; ABSENCE OF HISTORY AS A STAND-ALONE COMPANY

Since 1991, School Specialty and U.S. Office Products have significantly expanded the scope of School Specialty's operations by acquiring sixteen regional distributors of educational supplies in different regions of the United States and four specialty brand school supply companies. All of School Specialty's specialty brand acquisitions and eleven of its regional distribution acquisitions have occurred since June 1996. There can be no assurance that School Specialty's management and financial controls, personnel, computer systems, and other corporate support systems will be adequate to manage the increased size and scope of School Specialty's operations as a result of School Specialty's recently completed acquisitions.

Prior to the School Specialty Distribution, certain general and administrative functions relating to School Specialty's business (including legal, accounting, purchasing and management information services) were handled by U.S. Office Products. School Specialty's future performance will depend on its ability to function as a stand-alone entity, to finance and manage its expanding operations and to adapt its information systems to changes in its business. As a result, School Specialty's expenses are likely to be higher than when it was a part of U.S. Office Products, and School Specialty may experience disruptions of general and administrative functions that it would not have encountered as a part of U.S. Office Products. Furthermore, the financial

information included herein may not necessarily reflect what the results of operations and financial condition would have been had School Specialty been a separate, stand-alone entity during the periods presented or be indicative of future results of operations and financial condition of School Specialty.

DEPENDENCE ON KEY SUPPLIERS AND SERVICE PROVIDERS

School Specialty is dependent on (i) a limited number of suppliers for certain of its product lines, particularly its franchise furniture lines, and (ii) a limited number of service providers, such as delivery service from United Parcel Service. Any interruption of supply from current vendors or any material increased costs, particularly in the peak season of June through September, could cause significant delays in the shipment of such products and could have a material adverse effect on School Specialty's business, financial condition, and results of operations. Increases in freight costs charged to School Specialty or inability to ship products, whether real or perceived, could have a material adverse effect on School Specialty's business, financial condition, and results of operations. In addition, as part of its business strategy, School Specialty strives to reduce its number of suppliers and minimize duplicative lines, which may have the effect of increasing its dependence on remaining vendors. The United Parcel

Service strike during August 1997 had an adverse effect on School Specialty due to the perceived inability of School Specialty to ship products.

COMPETITION

The market for school supplies is highly competitive and fragmented. School Specialty estimates that over 3,400 companies distribute educational materials to pre-K-12 schools as a primary focus of their business. In addition, School Specialty competes with alternate channel distributors such as office product contract stationers and superstores, which may continue to broaden their product lines in school supplies. Some of these competitors have greater financial resources and buying power than School Specialty. School Specialty believes that the educational supplies market will consolidate over the next several years, which may make School Specialty's general and specialty supply businesses more competitive. In addition, there may be increasing competition for acquisition candidates and there can be no assurance that acquisitions will continue to be available to School Specialty on favorable terms, if at all. See "Business--Competition".

MATERIAL AMOUNT OF GOODWILL

Approximately $97.5 million, or 47.7%, of School Specialty's pro forma total assets as of January 24, 1998 represents intangible assets, the significant majority of which is goodwill. Goodwill represents the excess of cost over the fair market value of net assets acquired in business combinations accounted for under the purchase method. School Specialty generally amortizes goodwill on a straight line method over a period of 40 years with the amount amortized in a particular period constituting a non-cash expense that reduces School Specialty's net income. Amortization of goodwill resulting from certain past acquisitions, and additional goodwill recorded in certain acquisitions may not be deductible for tax purposes. In addition, School Specialty will be required to periodically evaluate the recoverability of goodwill by reviewing the anticipated undiscounted future cash flows from the operations of the acquired companies and comparing such cash flows to the carrying value of the associated goodwill. If goodwill becomes impaired, School Specialty would be required to write down the carrying value of the goodwill and incur a related charge to its income. A reduction in net income resulting from the amortization or write down of goodwill could have a material and adverse impact upon the market price of School Specialty Common Stock.

NO PRIOR PUBLIC TRADING MARKET

Prior to the School Specialty Distribution, there has been no public market for School Specialty Common Stock, and there can be no assurance that an active trading market will develop or, if one does develop, that it will continue. The price of School Specialty Common Stock will be determined in the marketplace and may be influenced by many factors, including (i) the depth and liquidity of the market for School Specialty Common Stock, (ii) developments affecting School Specialty's businesses generally, (iii) investor perception of the school supplies industry generally, and (iv) general economic and market conditions. See "Underwriting" for a discussion of factors considered in determining the initial public offering price.

NO DIVIDENDS

School Specialty does not expect to pay cash dividends on School Specialty Common Stock in the foreseeable future. In addition, School Specialty's ability to pay dividends may be restricted from time to time by financial covenants in its credit agreements. See "Dividend Policy".

DILUTION

Purchasers of Common Stock in this Offering will sustain a substantial and immediate dilution of $12.77 per share (determined by subtracting its adjustable pro forma book value per share as of January 24, 1998, adjusted to give effect to the Offering, from the assumed initial public offering price). In addition, the exercise of stock options could have a further dilutive effect. See "Dilution".

THE SPIN-OFF FROM U.S. OFFICE PRODUCTS

Prior to this Offering, School Specialty has been a wholly-owned subsidiary of U.S. Office Products. At the time of this Offering, School Specialty will hold all of the business and assets of, and will be responsible for substantially all of the liabilities associated with, U.S. Office Products' Educational Supplies and Products Division. Concurrently with this Offering, the 12,299,593 shares of School Specialty Common Stock will be distributed to the stockholders of U.S. Office Products of record on June 9, 1998. U.S. Office Products is spinning off School Specialty as part of the Strategic Restructuring Plan in which U.S. Office Products is spinning off the shares of the four companies that will conduct U.S. Office Products' current print management, technology solutions, educational supplies and corporate travel services businesses.

In connection with the School Specialty Distribution, School Specialty is entering into a series of agreements with U.S. Office Products and the other Spin-Off Companies to provide mechanisms for an orderly transition and to define certain relationships among School Specialty, U.S. Office Products and the other Spin-Off Companies after the School Specialty Distribution. These agreements are: a distribution agreement (the "Distribution Agreement") among School Specialty, U.S. Office Products and the other Spin-Off Companies; a tax allocation agreement (the "Tax Allocation Agreement") among School Specialty, U.S. Office Products and the other Spin-Off Companies; an employee benefits agreement (the "Employee Benefits Agreement") among School Specialty, U.S. Office Products and the other Spin-Off Companies; and a tax indemnification agreement (the "Tax Indemnification Agreement") among School Specialty and the Other Spin-Off Companies. The terms of the Distribution Agreement, the Tax Allocation Agreement, the Tax Indemnification Agreement and the Employee Benefits Agreement described herein are being determined while School Specialty is a wholly-owned subsidiary of U.S. Office Products. In addition, the agreement between U.S. Office Products and an affiliate ("CD&R") of an investment fund

managed by Clayton, Dubilier & Rice, Inc. relating to CD&R's investment in U.S. Office Products (the "Investment Agreement") specifies certain terms of these agreements and provides that they are subject to CD&R's reasonable approval. Therefore, these agreements are not the result of arm's-length negotiations between independent parties.

Although the terms of the Distribution Agreement, Tax Allocation Agreement, Tax Indemnification Agreement, and Employee Benefits Agreement have not been finally determined, School Specialty currently expects that the terms will include those described below. There can be no assurance that the terms of the Distribution Agreement, Tax Allocation Agreement, Tax Indemnification Agreement and Employee Benefits Agreement will not be less favorable to the stockholders of School Specialty than the terms set out below.

DISTRIBUTION AGREEMENT

TRANSFER OF SUBSIDIARIES AND ASSETS. The Distribution Agreement will provide for the transfer from U.S. Office Products to School Specialty of substantially all of the equity interests in the U.S. Office Products subsidiaries that are engaged in the business of School Specialty as well as the transfer, in certain instances, of other assets related to the business of School Specialty. It also will provide that the recovery on any claims under applicable acquisition agreements that U.S. Office Products may have against the persons who sold businesses to U.S. Office Products that will become part of School Specialty in connection with the Distributions (the "School Specialty Acquisition Indemnity Claims") will

be shared between U.S. Office Products and School Specialty. In addition, to the extent that the School Specialty Acquisition Indemnity Claims are currently secured by the pledge of stock of U.S. Office Products, the pledged shares will be used, subject to the final resolution of the claim, to reimburse U.S. Office Products and School Specialty for their respective damages and expenses, in accordance with an agreed upon allocation of recovery rights, which will be determined prior to the School Specialty Distribution.

DEBT. The Distribution Agreement allocates a specified amount of U.S. Office Products' debt outstanding under its credit facilities to each Spin-Off Company and requires each Spin-Off Company, on or prior to the Distribution, to obtain credit facilities, to borrow funds under such facilities and to use the proceeds of such borrowings to pay off the U.S. Office Products' debt so allocated plus any additional debt incurred by U.S. Office Products after January 12, 1998 (the date of the Investment Agreement) in connection with the acquisition of an entity that has become or will become a subsidiary of such Spin-Off Company. Under the Distribution Agreement, $80 million of U.S. Office Products' debt has been allocated to School Specialty, and since January 12, 1998, U.S. Office Products has incurred an additional $3.3 million of debt in connection with School Specialty's acquisition of Education Access. Prior to the Distribution, School Specialty will enter into the credit facility described under "Management's Discussion and Analysis of Financial Condition and Results of Operations--Liquidity and Financial Resources" and will borrow $83.3 million under the facility to pay off debt of U.S. Office Products.

School Specialty's historical balance sheets reflect payables to U.S. Office Products, which arose primarily as a result of U.S. Office Products' funding of the cash portions of acquisitions, paying the acquisition costs and repaying outstanding debt of acquired companies, as well as an allocation of U.S. Office Products' corporate expenses. The amount of such payables to U.S. Office Products at January 24, 1998 in excess of the $80 million of U.S. Office

Products' debt allocated to School Specialty under the Distribution Agreement was forgiven by U.S. Office Products. Accordingly, School Specialty's historical balance sheet as of January 24, 1998 includes aggregate payables to U.S. Office Products of $80 million and a capital contribution by U.S. Office Products equal to such excess. School Specialty's pro forma balance sheet as of January 24, 1998 reflects the $3.3 million of debt incurred by U.S. Office Products in School Specialty's acquisition of Education Access as an additional payable to U.S. Office Products and the refinancing of the payable to U.S. Office Products with the proceeds of the $83.3 million borrowing under the new credit facility.

LIABILITIES. Under the Distribution Agreement, School Specialty will be liable for (i) any liabilities arising out of or in connection with the business conducted by it or its subsidiaries, (ii) its liabilities under the Employee Benefits Agreement, Tax Allocation Agreement and related agreements described below, (iii) the U.S. Office Products debt that has been allocated to the Company as described above, (iv) liabilities under the securities laws relating to this Prospectus and portions of the Information Statement/Prospectus distributed to stockholders of U.S. Office Products in connection with the School Specialty Distribution, as well as other securities law liabilities related to the School Specialty business that arise from information supplied to U.S. Office Products (or that should have been supplied, but was not) by School Specialty, (v) U.S. Office Products' liabilities for earn-outs from acquisitions in respect of School Specialty and its subsidiaries, (vi) School Specialty's costs and expenses related to the Offering and its new credit facility, and (vii) $1.0 million of the transaction costs (including legal, accounting, investment banking and financial advisory) and other fees incurred by U.S. Office Products in connection with its Strategic Restructuring Plan. Each of the other Spin-Off Companies will be similarly obligated to U.S. Office Products. School Specialty and the other Spin-Off Companies have also agreed to bear a pro rata portion of U.S. Office Products' liabilities under the securities laws (other than claims relating solely to a specific Spin-Off Company or relating specifically to the continuing businesses of U.S. Office Products) and U.S. Office Products' general corporate liabilities (other than debt, except for that specifically allocated to the Spin-Off Companies) incurred prior to the Distributions (i.e., liabilities not related to the conduct of a particular distributed or retained subsidiary's business) (the "Shared Liabilities"). If one

of the Spin-Off Companies defaults on an obligation owed to U.S. Office Products, the non-defaulting Spin-Off Companies will be obligated on a pro rata basis to pay such obligation ("Default Liability"). The aggregate of the Shared Liabilities and Default Liability for which any Spin-Off Company may be liable is, however, limited to $1.75 million.

The Spin-Off Companies' pro rata share of Shared Liabilities will be, based upon the fiscal year ended April 25, 1998, the average of (a) their revenues relative to those of U.S. Office Products and (b) their operating income relative to that of U.S. Office Products; the residual will be U.S. Office Products' pro rata share. Based upon financial data for the nine-month period ended January 24, 1998, the Company's pro rata share of Shared Liabilities would have been 11.9%, the other Spin-Off Companies' pro rata share would have aggregated 22.5%, and U.S. Office Products' pro rata share would have been 65.6%. As to any Default Liability, each non-defaulting Spin-Off Company's pro rata share will be increased to include a portion of the defaulting Spin-Off Company's pro rata share.

The Distribution Agreement will provide that each party will indemnify and hold all of the other parties harmless from any and all liabilities for which

the former assumed liability under the Distribution Agreement. All indemnity payments will be subject to adjustment upward or downward to take account of tax costs or tax benefits as well as insurance proceeds. If there are any claims made under U.S. Office Products' existing insurance policies, the amount of any deductible or retention will be allocated by U.S. Office Products among the claimants in a fair and reasonable manner.

OTHER PROVISIONS. The Distribution Agreement will have other customary provisions including provisions relating to mutual release, access to information, witness services, confidentiality and alternative dispute resolution.

TAX ALLOCATION AGREEMENT AND TAX INDEMNIFICATION AGREEMENT

The Tax Allocation Agreement will provide that each Spin-Off Company will be responsible for its respective share of U.S. Office Products' consolidated tax liability for the years that each such corporation was included in U.S. Office Products' consolidated U.S. federal income tax return. The Tax Allocation Agreement also will provide for sharing, where appropriate, of state, local and foreign taxes attributable to periods prior to the Distributions.

The Tax Allocation Agreement will further provide that the Spin-Off Companies will jointly and severally indemnify U.S. Office Products for any Distribution Taxes assessed against U.S. Office Products if an Adverse Tax Act of any of the Spin-Off Companies materially contributes to a final determination that any or all of the Distributions are taxable. School Specialty will also enter into the Tax Indemnification Agreement with the other Spin-Off Companies under which the Spin-Off Company that is responsible for the Adverse Tax Act will indemnify the other Spin-Off Companies for any liability to U.S. Office Products under the Tax Allocation Agreement. As a consequence, School Specialty will be liable for any Distribution Taxes resulting from any Adverse Tax Act by School Specialty and liable (subject to indemnification by the other Spin-Off Companies) for any Distribution Taxes resulting from an Adverse Tax Act by the other Spin-Off Companies. If there is a final determination that any or all of the Distributions are taxable and it is determined that there has not been an Adverse Tax Act by either U.S. Office Products or any of the Spin-Off Companies, each of U.S. Office Products and the Spin-Off Companies will be liable for its pro rata portion of such Distribution Taxes based on the value of each company's common stock after the Distributions. As a result, School Specialty could become liable for a pro rata portion of Distribution Taxes with respect not only to the School Specialty Distribution but also any of the other Distributions. The liabilities of School Specialty under the Tax Allocation Agreement and the Tax Indemnification Agreement are not subject to any limits.

EMPLOYEE BENEFITS AGREEMENT

In connection with the School Specialty Distribution, U.S. Office Products will enter into the Employee Benefits Agreement with School Specialty and the other Spin-Off Companies to provide for an orderly transition of benefits coverage between U.S. Office Products and the Spin-off Companies. Pursuant to this agreement, the respective Spin-Off Companies will retain or assume liability for employment-related claims and severance for persons currently or previously employed by the respective Spin-Off Companies and their subsidiaries, while U.S. Office Products and its post-Distribution subsidiaries will retain or assume responsibility for their current and previous employees. The proposed Employee Benefits Agreement reflects U.S. Office Products' expectation that each of the Spin-Off Companies will establish 401(k) plans for their respective employees effective as of, or shortly after, the Distribution Date and that U.S. Office Products will transfer 401(k) accounts to those plans as soon as practicable. The agreement will provide for spinning off portions of the U.S.

Office Products' cafeteria plan that relate to employees of the Spin-Off Companies (and their subsidiaries) and having those spun-off plans assume responsibilities for claims submitted on or after the Distribution.

U.S. FEDERAL INCOME TAX CONSEQUENCES OF THE DISTRIBUTIONS

Pursuant to the Tax Allocation Agreement and Tax Indemnification Agreement, see "--Tax Allocation Agreement and Tax Indemnification Agreement," School Specialty could be liable for Distribution Taxes if any or all of the Distributions fail to qualify as tax-free spin-offs under Section 355 of the Code or are taxable under Section 355(e) of the Code.

THE TAX OPINION. Wilmer, Cutler & Pickering expects to deliver an opinion (the "Tax Opinion") at the time of the Distributions stating that for U.S. federal income tax purposes the Distributions will qualify as tax-free spin-offs under Section 355 of the Code and will not be taxable under Section 355(e) of the Code. U.S. Office Products will not complete the Distributions unless it receives the Tax Opinion. The Tax Opinion will be based on the accuracy as of the time of the Distributions of factual representations made by U.S. Office Products, the Spin-Off Companies and CDR-PC Acquisition, L.L.C., and certain other information, data, documentation and other materials that Wilmer, Cutler & Pickering has deemed necessary.

The Tax Opinion will represent Wilmer, Cutler & Pickering's best judgment of how a court would rule. However, the Tax Opinion is not binding upon either the IRS or any court. A ruling has not been, and will not be, sought from the IRS with respect to the U.S. federal income tax consequences of the Distributions.

Assuming the Distributions qualify as tax-free spin-offs under Section 355 and are not taxable under Section 355(e), no gain or loss will be recognized by U.S. Office Products as a result of the Distributions.

CONSEQUENCES OF FAILURE TO QUALIFY AS A TAX-FREE DISTRIBUTION. As noted above, the Tax Opinion is not binding on the IRS or the courts. Prospective investors should be aware that the requirements of Section 355 pertaining to business purpose, active trade or business, and absence of a device for distribution of earnings and profits, as well as the requirements of Section 355(e) pertaining to a plan or series of related transactions to acquire 50% or more by vote or value of a company, are highly dependent on factual interpretations, are to a significant extent subjective in nature, and have a relative absence of authority addressing their application to the particular facts presented by the Distributions. Accordingly, the IRS and/or a court could reach a conclusion that differs from the conclusions in the Tax Opinion.

BUSINESS PURPOSE. In order for a Distribution to qualify as a tax-free spin-off under Section 355, it must be motivated, in whole or substantial part, by one or more corporate business purposes. U.S. Office Products will represent that the Distributions were motivated, in whole or substantial part, to allow U.S. Office Products and the Spin-Off Companies to adopt strategies and pursue objectives that are

more appropriate to their respective industries and stages of growth; to allow the Spin-Off Companies to pursue independent acquisition programs with a more focused use of resources and, where stock is used as consideration, to allow the Spin-Off Companies to provide stock of a public company that is in the same industry as the business being acquired; to allow U.S. Office Products and the Spin-Off Companies to offer their respective employees more focused compensation packages; and to make possible the Equity Investment which the Board of Directors of U.S. Office Products concluded would contribute to U.S. Office Products' development, based on the skills and experience of CD&R, Inc. Based on these representations and certain other information, data, documentation and other materials, Wilmer, Cutler & Pickering expects to deliver the Tax Opinion at the time of the Distributions stating that each Distribution satisfies the business purpose requirement of Section 355. However, although similar rationales have been accepted by the IRS in other circumstances as sufficient to

meet the business purpose requirement of Section 355, there can be no assurance that the IRS will not assert that the business purpose requirement is not satisfied.

ACTIVE TRADE OR BUSINESS. In order for the distribution of the stock of a Spin-Off Company (other than Navigant International, Inc. ("Navigant"), the Spin-Off Company acquiring U.S. Office Products' travel business) to qualify as a tax-free spin-off under Section 355, both the Spin-Off Company and U.S. Office Products must be engaged in an active trade or business that has been actively conducted for the five-year period preceding the Distributions, taking into account only businesses that have been acquired in transactions in which no gain or loss was recognized. In order for the distribution of the stock of Navigant to qualify as a tax-free spin-off under Section 355, substantially all of the assets of Navigant must consist of the stock of Professional Travel Corporation ("Professional Travel"), and Professional Travel and U.S. Office Products must meet the requirements described in the preceding sentence. Whether current and historical business activity constitutes an active trade or business, and whether any gain or loss should have been recognized in an acquisition structured and reported as a nontaxable transaction, turn in some instances on the application of subjective legal standards and on factual determinations, such as intentions of the parties involved. Based on the representations of U.S. Office Products and the Spin-Off Companies, Wilmer, Cutler & Pickering expects to deliver the Tax Opinion at the time of the Distributions stating that each Distribution will satisfy the active trade or business requirement. However, because of the inherently subjective nature of important elements of the active trade or business requirement, and because the IRS may challenge the representations upon which Wilmer, Cutler & Pickering relies, there can be no assurance that the IRS will not assert that the active trade or business requirement is not satisfied.

ABSENCE OF A DEVICE FOR DISTRIBUTION OF EARNINGS AND PROFITS. A Distribution will not qualify as a tax-free spin-off under Section 355 if the Distribution was used principally as a device for the distribution of the earnings and profits of U.S. Office Products or the Spin-Off Company. Treasury regulations provide that this test is applied based on all the facts and circumstances, including the presence or absence of factors described in the Treasury Regulations as "device factors" and "nondevice factors." Application of this test is uncertain in part because of its subjective nature. Based on the representations of U.S. Office Products and the Spin-Off Companies, Wilmer, Cutler & Pickering expects to deliver the Tax Opinion at the time of the Distributions stating that none of the Distributions is a transaction used principally as a device for the distribution of earnings and profits of either U.S. Office Products or any of the Spin-Off Companies. However, because of the inherently subjective nature of the device test (including the subjectivity involved in assigning weight to various factors), and because the IRS may challenge the representations upon which Wilmer, Cutler & Pickering relies, there can be no assurance that the IRS will not assert that any or all of the Distributions are transactions used principally as a device for the distribution of earnings and profits.

EFFECT OF POST-DISTRIBUTION TRANSACTIONS. Section 355(e), which was added in 1997, generally provides that a company that distributes shares of a subsidiary in a spin-off that is otherwise tax-free will incur U.S. federal income tax liability if 50% or more, by vote or value, of the capital stock of either the

company making the distribution or the subsidiary is acquired by one or more persons acting pursuant to a plan or a series of related transactions that includes the spin-off. Stock acquired by certain related persons is aggregated in determining whether this 50% test is met. There is a presumption that any acquisition of 50% or more, by vote or value, of the capital stock of the company or the subsidiary occurring two years before or after the spin-off is pursuant to a plan that includes the spin-off. However, the presumption may be rebutted by establishing that the spin-off and the acquisition are not part of a plan or a series of related transactions. Based on the representations of U.S. Office Products, the Spin-Off Companies and CDR-PC, L.L.C., and the assumption

that no Distribution is part of a plan that is outside the knowledge of U.S. Office Products and the Spin-Off Companies pursuant to which one or more persons will acquire directly or indirectly 50% or more by vote or value of the capital stock of U.S. Office Products or of any Spin-Off Company, Wilmer, Cutler & Pickering expects to deliver the Tax Opinion at the time of the Distributions stating that the Distributions will not be taxable under Section 355(e). However, there can be no assurance that the IRS will not assert that any or all of the Distributions are taxable under Section 355(e).

If a Distribution fails to qualify as a tax-free spin-off or is taxable under Section 355(e), U.S. Office Products will recognize gain equal to the difference between the fair market value of the common stock of the Spin-Off Company and U.S. Office Products' adjusted tax basis in the common stock of the Spin-Off Company (on the Distribution Date). If U.S. Office Products were to recognize gain on one or more Distributions, such gain would likely be substantial.

USE OF PROCEEDS

The net proceeds to School Specialty from the sale of the 2,125,000 shares of Common Stock offered pursuant to the Offering and the 250,000 shares offered to Messrs. Spalding, Vander Zanden and Pate are estimated to be approximately $31,631,250 ($36,077,813 if the Underwriters' over-allotment option is exercised in full), assuming an initial public offering price of $15.00 per share and after deducting the estimated underwriting discount and offering expenses payable by the Company.

School Specialty intends to use the net proceeds from the Offering and the sale of 250,000 shares of Common Stock to Messrs. Spalding, Vander Zanden and Pate to repay a portion of the $83.3 million to be borrowed under a $250 million credit facility to refinance all amounts payable to U.S. Office Products. After such repayment, approximately $200 million will be available under the credit facility (subject to compliance with financial covenants), which may be used for general corporate purposes, including working capital, and for acquisitions.

DIVIDEND POLICY

School Specialty does not anticipate declaring and paying cash dividends on School Specialty Common Stock in the foreseeable future. School Specialty's ability to pay dividends may be restricted from time to time by financial covenants in its credit agreements.

DILUTION

The pro forma net tangible book value of School Specialty at January 24, 1998 was $1.0 million, or $.08 per share of Common Stock. Pro forma net tangible book value per share is determined by dividing the pro forma net tangible book value (total pro forma tangible assets less total pro forma liabilities) of School Specialty by the pro forma number of shares of Common Stock outstanding. Without taking into account any changes in the pro forma net tangible book value of School Specialty, other than to give effect to the sale of the shares of Common Stock to Messrs. Spalding, Vander Zanden and Pate and those offered hereby (assuming an initial public offering price of $15.00 per share and after deducting the estimated underwriting discount and offering expenses to be paid by the Company) and the receipt of the net proceeds therefrom, the adjusted pro forma net tangible book value of School Specialty at January 24, 1998 would have been $32.7 million or $2.23 per share of Common Stock. This represents an immediate dilution in net tangible book value of $12.77 per share to new investors purchasing shares in this Offering. The following table illustrates this per share dilution.

Assumed initial public offering price per share		$ 15.00
Pro forma net tangible book value per share at January 24, 1998	$ .08	
Increase per share attributable to new investors(1)	2.15	
Pro forma net tangible book value after the offering		2.23
Dilution per share to new investors(2)(3)		12.77

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(1) After deduction of the estimated underwriting discount and offering expenses to be paid by the Company and assuming no exercise of the Underwriters' over-allotment option.

(2) Determined by subtracting the adjusted pro forma net tangible book value per share after the offering from the amount of cash paid by a new investor for one share of Common Stock.

(3) The foregoing information does not give effect to the issuance of shares of Common Stock pursuant to stock options granted or to be granted. See "Management--Executive Compensation" and "-- Replacement of Outstanding U.S. Office Products' Options".

CAPITALIZATION

The following table sets forth the capitalization of School Specialty at January 24, 1998 (i) on a historical basis, (ii) on a pro forma basis to reflect the refinancing of all amounts payable to U.S. Office Products, the purchase acquisition completed subsequent to January 24, 1998 and the Distribution and (iii) on such pro forma basis as adjusted to give effect to this Offering, the direct sale by the Company of 250,000 shares of Common Stock to Messrs. Spalding, Vander Zanden and Pate and the application of the net proceeds therefrom to the payment of debt (assuming an inital public offering price of $15.00 per share and no exercise of the Underwriter's overallotment option, after deducting the estimated offering expenses). This table should be read in conjunction with the "Management's Discussion and Analysis of Financial Condition and Results of Operations," the historical consolidated financial statements and the pro forma combined financial statements of School Specialty, and the related notes to each thereof, included elsewhere in this Prospectus.

	JANUARY 24, 1998		
	HISTORICAL	PRO FORMA	PRO FORMA AS ADJUSTED
	(IN THOUSANDS)		
Short-term debt	$ 272	$ 272	$ 272
Short-term payable to U.S. Office Products	16,873		
Total short-term debt	$ 17,145	$ 272	$ 272
Long-term debt	$ 385	$ 82,978	$ 51,347

Long-term payable to U.S. Office Products	62,470		
Stockholder's equity:			
Preferred stock (1,000,000 shares authorized; no shares outstanding)			
Common stock, $0.001 par value (150,000,000 shares authorized; 12,299,593 shares outstanding pro forma; 14,674,593 shares outstanding pro forma, as adjusted)(1)		13	15
Additional paid-in capital		93,300	124,929
Divisional equity	93,313		
Retained earnings	5,179	5,179	5,179
Total stockholder's equity	98,492	98,492	130,123
Total capitalization	$ 161,347	$ 181,470	$ 181,470

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(1) Outstanding shares do not include shares authorized for issuance upon exercise of stock options granted or to be granted. See "Management--Replacement of Outstanding U.S. Office Products' Options" and "--1998 Stock Incentive Plan". The approximately 12.3 million shares of Common Stock outstanding on a pro forma basis was calculated by dividing the approximately 110.7 million shares of U.S. Office Products common stock expected to be outstanding on the Distribution Date by nine, which is the Distribution Ratio. The approximately 14.7 million shares of Common Stock outstanding on a pro forma basis, as adjusted, was calculated by adding to the approximately 12.3 million shares (a) the 2,125,000 shares offered hereby and (b) the 250,000 shares to be sold to Messrs. Spalding, Vander Zanden and Pate.

SELECTED FINANCIAL DATA

The Selected Financial Data provided herein should be read in conjunction with the historical financial statements, including the notes thereto, the pro forma financial information, including the notes thereto, and "Management's Discussion and Analysis of Financial Condition and Results of Operations", all of which appear elsewhere in this Prospectus.

The historical Selected Financial Data for the years ended December 31, 1994 and 1995, the four months ended April 30, 1996 and the fiscal year ended April 26, 1997 (except pro forma amounts) have been derived from School Specialty's consolidated financial statements that have been audited and are included elsewhere in the Prospectus. The historical Selected Financial Data for the years ended December 31, 1992 and 1993 have been derived from unaudited consolidated financial statements which are not included elsewhere in this Prospectus. The Selected Financial Data for the nine months ended January 25, 1997 and January 24, 1998 (except pro forma amounts) have been derived from unaudited consolidated financial statements that appear elsewhere in this Prospectus. These unaudited consolidated financial statements have been prepared on the same basis as the audited consolidated financial statements and, in the opinion of management, contain all adjustments, consisting only of normal recurring accruals, necessary for a fair presentation of the results of operations for the periods presented.

The pro forma income statement data, which have been derived from School Specialty's unaudited pro forma financial statements included elsewhere in this Prospectus, give effect, as applicable, to the refinancing of all amounts payable to U.S. Office Products and the acquisitions completed by the Company since May 1, 1996 as if all such transactions had been consummated by May 1, 1996. The unaudited pro forma combined financial data discussed herein do not purport to represent the results that the Company would have obtained had the transactions which are the subject of the pro forma adjustments occurred at the

beginning of the applicable periods, as assumed, or the future results of the Company. See additional disclosure regarding pro forma results in the Financial Statements section.

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

	HISTORICAL(1)					
	YEAR ENDED DECEMBER 31,				FOUR MONTHS ENDED APRIL 30,	FISCAL YEAR ENDED
	1992	1993	1994	1995	1996	APRIL 26, 1997(2)
STATEMENT OF INCOME DATA:						
Revenues	$65,042	$76,926	$119,510	$150,482	$28,616	$ 191,746
Cost of revenues	48,111	56,280	87,750	105,757	20,201	136,577
Gross profit	16,931	20,646	31,760	44,725	8,415	55,169
Selling, general and administrative expenses	17,729	18,294	27,281	39,869	10,307	43,462
Non-recurring acquisition costs	1,048				1,122	1,792
Restructuring costs				2,532		194
Operating income (loss)	(1,846)	2,352	4,479	2,324	(3,014)	9,721
Interest expense	1,660	1,845	3,007	5,536	1,461	4,197
Interest income					(6)	
Other (income) expense	99	228	(86)	(18)	67	)(196
Income (loss) before provision for (benefit from) income taxes	(3,605)	279	1,558	(3,194)	(4,536)	5,720
Provision for (benefit from) income taxes(3)	216	199	218	173	139	(2,412)
Net income (loss)	$(3,821)	$ 80	$ 1,340	$ (3,367)	$(4,675)	$ 8,132
Net income (loss) per share(4):						
Basic	$ (0.78)	$ 0.00	$ 0.26	$ (0.51)	$ (0.54)	$ 0.81
Diluted	$ (0.78)	$ 0.00	$ 0.26	$ (0.50)	$ (0.53)	$ 0.80
Weighted average shares outstanding(4):						
Basic	4,918	4,918	5,062	6,562	8,611	10,003
Diluted	4,918	4,918	5,078	6,669	8,789	10,196

	NINE MONTHS ENDED		PRO FORMA (2)	
				NINE MONTHS ENDED
	JANUARY 25, 1997(2)	JANUARY 24, 1998(2)	FISCAL YEAR ENDED APRIL 26, 1997	JANUARY 25, 1997
STATEMENT OF INCOME DATA:				
Revenues	$159,977	$247,880	$ 350,760	$292,244
Cost of revenues	114,380	176,501	244,396	203,705
Gross profit	45,597	71,379	106,364	88,539
Selling, general and administrative expenses	33,396	50,999	85,430	66,926
Non-recurring acquisition costs	1,792		1,792	1,792
Restructuring costs			194	
Operating income (loss)	10,409	20,380	18,948	19,821
Interest expense	3,358	4,100	7,300	5,535
Interest income	(101)	(109)		
Other (income) expense	(204)	441	)(158	(174)
Income (loss) before provision for (benefit from) income taxes	7,356	15,948	11,806	14,460
Provision for (benefit from) income taxes(3)	3,750	7,113	92	6,651
Net income (loss)	$ 3,606	$ 8,835	$ 11,714	$ 7,809
Net income (loss) per share(4):				
Basic	$ 0.38	$ 0.69	$ 0.95	$ 0.63
Diluted	$ 0.37	$ 0.68	$ 0.95	$ 0.63
Weighted average shares outstanding(4):				
Basic	9,553	12,751	12,300	12,300
Diluted	9,758	13,020	12,300	12,300

	JANUARY 24, 1998
STATEMENT OF INCOME DATA:	
Revenues	$318,667
Cost of revenues	227,485

Gross profit	91,182
Selling, general and administrative expenses	66,623
Non-recurring acquisition costs	
Restructuring costs	
Operating income (loss)	24,559
Interest expense	5,535
Interest income	
Other (income) expense	522
Income (loss) before provision for (benefit from) income taxes	18,502
Provision for (benefit from) income taxes(3)	8,511
Net income (loss)	$ 9,991
Net income (loss) per share(4):	
Basic	$ 0.81
Diluted	$ 0.81
Weighted average shares outstanding(4):	
Basic	12,300
Diluted	12,300

	DECEMBER 31, 1992
BALANCE SHEET DATA:	
Working capital (deficit)	$ (51)
Total assets	21,905
Long-term debt, less current portion	8,205
Long-term payable to U.S. Office Products	
Stockholder's (deficit) equity	(365)

	1993
BALANCE SHEET DATA:	
Working capital (deficit)	$ 1,140
Total assets	23,190
Long-term debt, less current portion	7,175
Long-term payable to U.S. Office Products	
Stockholder's (deficit) equity	545

	1994
BALANCE SHEET DATA:	
Working capital (deficit)	$ 3,512
Total assets	44,267
Long-term debt, less current portion	11,675
Long-term payable to U.S. Office Products	
Stockholder's (deficit) equity	1,827

	1995
BALANCE SHEET DATA:	
Working capital (deficit)	$ (1,052)
Total assets	54,040
Long-term debt, less current portion	15,294
Long-term payable to U.S. Office Products	
Stockholder's (deficit) equity	(620)

	APRIL 30, 1996
BALANCE SHEET DATA:	
Working capital (deficit)	$ (3,663)
Total assets	54,573
Long-term debt, less current portion	15,031
Long-term payable to U.S. Office Products	
Stockholder's (deficit) equity	(4,267)

	APRIL 26, 1997
BALANCE SHEET DATA:	
Working capital (deficit)	$ 14,460
Total assets	87,685
Long-term debt, less current portion	566
Long-term payable to U.S. Office Products	33,226
Stockholder's (deficit) equity	16,329

JANUARY 24,

	1998
	ACTUAL
BALANCE SHEET DATA:	
Working capital (deficit)	$ 43,613
Total assets	201,207
Long-term debt, less current portion	385
Long-term payable to U.S. Office Products	62,470
Stockholder's (deficit) equity	98,492

	PRO FORMA (5)
BALANCE SHEET DATA:	
Working capital (deficit)	$ 60,586
Total assets	204,457
Long-term debt, less current portion	82,978
Long-term payable to U.S. Office Products	
Stockholder's (deficit) equity	98,492

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(1) The historical financial information of the Pooled Companies have been combined on a historical cost basis in accordance with GAAP to present this financial data as if the Pooled Companies had always been members of the same operating group. The financial information of the Purchased Companies is included from the dates of their respective acquisitions.

(2) The pro forma financial data give effect to the refinancing of all amounts payable to U.S. Office Products and the purchase acquisitions completed by School Specialty since May 1, 1996 as if all such transactions had occurred on May 1, 1996. The pro forma statement of income data are not necessarily indicative of the operating results that would have been achieved had these events actually then occurred and should not be construed as representative of future operating results.

(3) Results for the fiscal year ended April 26, 1997 and the 12 months ended January 24, 1998 (historical and pro forma) include benefit from income taxes of $2.4 million primarily arising from the reversal of a $5.3 million valuation allowance in the quarter ended April 26, 1997. The valuation allowance had been established in fiscal 1995 to offset the tax benefit from net operating loss carryforwards included in the Company's deferred tax assets, because at the time it was not likely that such tax benefit would be realized. The valuation allowance was reversed subsequent to the Company's being acquired by U.S. Office Products, because it was deemed "more likely than not," based on improved results, that such tax benefit would be realized.

(4) For calculation of the pro forma weighted average shares outstanding for the fiscal year ended April 26, 1997 and for the nine months ended January 24, 1998 and January 25, 1997, see Note 2(k) of Notes to Pro Forma Combined Financial Statements included herein. The pro forma weighted average shares outstanding (basic and diluted), as further adjusted to give effect to the sales of shares to Messrs. Spalding, Vander Zanden and Pate and in the Offering, would have been 14.7 million shares for all periods for which pro forma data are given, and the pro forma net income per share, as so adjusted further and to give effect to the use of the proceeds from such sales to reduce debt, would have been:

	FISCAL YEAR ENDED APRIL 26, 1997	NINE MONTHS ENDED JANUARY 25, 1997
Pro forma net income per share, as adjusted:		
Basic	$ 0.90	$ 0.61
Diluted	$ 0.90	$ 0.61

	JANUARY 24, 1998
Pro forma net income per share, as adjusted:	
Basic	$ 0.76
Diluted	$ 0.76

(5) The pro forma balance sheet data give effect to (i) the refinancing of all amounts payable to U.S. Office Products, (ii) the purchase acquisition of Education Access, the only acquisition completed by School Specialty subsequent to January 24, 1998, and (iii) the Distribution as if such transactions had occurred on January 24, 1998. The pro forma balance sheet data are not necessarily indicative of the financial position that would have been achieved had these events actually then occurred and should not be construed as representative of future financial position.

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

OVERVIEW

School Specialty is the largest U.S. distributor focusing on non-textbook educational supplies and furniture for grades pre-K-12. The Company provides a comprehensive offering of high quality educational supplies and furniture to school districts, school administrators and teachers through the broad distribution of its catalogs. Specialty brands, which target specific curriculum disciplines, include Childcraft, which sells to the early childhood market; Sax Arts & Crafts, which distributes a broad line of art supplies and materials; and Gresswell, which distributes library-related products in the United Kingdom.

Revenues have increased from $65.0 million in the fiscal year ended December 31, 1992 to $279.6 million for the twelve months ended January 24, 1998. This increase resulted primarily from 15 acquisitions, 13 of which occurred during fiscal 1997 and the first nine months of fiscal 1998, as well as internally generated growth.

School Specialty's gross profit margins have improved by achieving increased buying power and by acquiring specialty companies which usually have higher gross margins than the Company's general products divisions. The Company expects gross profit margins to be further enhanced by acquiring additional specialty companies and continuing to improve its purchasing power.

School Specialty's operating margin has improved significantly over the last several years. This improvement reflects the Company's acquisition of specialty companies which have higher operating margins than the Company's general products divisions. In addition, operating margins have increased as the Company has reduced selling, general and administrative expenses of acquired companies by eliminating redundant administrative functions. Currently, nine of the ten general school supply companies acquired since May 1996 have been integrated. However, the Company believes that the full benefit of the integrations has not yet been realized as there continue to be opportunities for the Company to eliminate redundant costs.

The benefit from income taxes in Fiscal 1997 of $2.4 million reflects the reversal of a $5.3 million deferred tax valuation allowance in the fourth quarter. The Company believes the effective income tax rate of 46%, which is reflected in the pro forma financial statements for the most recent interim period, is more representative of future effective income tax rates. See "--Consolidated Historical Results of Operations".

School Specialty's business and working capital needs are highly seasonal with peak sales levels occurring from May through October. During this period, the Company receives, ships and bills the majority of its orders so that schools and teachers receive their merchandise by the start of each school year. School Specialty's inventory levels increase in April through July in anticipation of the peak selling season. The majority of cash receipts are collected from September through December.

In the past, the Company has recorded restructuring costs associated with consolidation of warehouse facilities. These costs typically include: costs to exit the facility, such as rent under remaining lease terms, occupancy, relocation costs and facility restoration; employee costs, such as severance; and asset impairment costs. The Company expects to incur such costs in the future as it continues to integrate acquired companies. Based on the additional time and resources expected to be involved in the development, review and approval of any such restructuring plans, the Company cannot presently predict the timing or overall magnitude of such a charge.

The Company anticipates recording in the fourth quarter of fiscal 1998 $2.0 to $2.5 million of one-time non-recurring costs, primarily consisting of a write-down of deferred catalog costs and employee severance and asset impairment costs, and $1.0 million of the transaction costs allocated to the

Company under the Distribution Agreement. In the first quarter of fiscal 1999, the Company will record a compensation charge of approximately $263,000, representing the difference between the amount which Messrs. Spalding, Vander Zanden and Pate will pay for the 250,000 shares of Common Stock to be purchased directly from the Company and the amount which they would have paid for such shares if the purchase price per share had been the initial public offering price of the shares offered in the Offering.

School Speciality is a Delaware corporation formed in February 1998 to hold the Educational Supplies and Products Division of U.S. Office Products, which acquired School Specialty, Inc., a Wisconsin corporation ("Old School"), in May 1996 and Re-Print in July 1996. The Company's consolidated financial statements give retroactive effect to these two business combinations under the pooling-of-interests method (Old School and Re-Print are referred to as the "Pooled Companies") and include the results of companies acquired in business combinations accounted for under the purchase method from their respective dates of acquisition. Prior to their respective dates of acquisition by U.S. Office Products, the Pooled Companies reported results on years ending on December 31. Upon acquisition by U.S. Office Products and effective for the fiscal year ended April 26, 1997 ("fiscal 1997"), the Pooled Companies changed their year-ends from December 31 to conform to U.S. Office Products' fiscal year, which ends on the last Saturday in April.

The following discussion should be read in conjunction with the Company's consolidated financial statements and related notes thereto and pro forma financial statements and related notes thereto appearing elsewhere in this Prospectus.

RESULTS OF OPERATIONS

The following table sets forth various items as a percentage of revenues on a historical basis for the years ended December 31, 1994 and 1995, fiscal 1997 and for the nine months ended January 25, 1997 and January 24, 1998, and on a pro forma basis for fiscal 1997 and for the nine months ended January 25, 1997 and January 24, 1998, reflecting the refinancing of the amounts payable to U.S. Office

Products and the results of the companies acquired since May 1, 1996 in business combinations accounted for under the purchase method as if such transactions had occurred on May 1, 1996.

	HISTORICAL					PRO FORMA		
	FOR THE YEAR ENDED		FISCAL YEAR ENDED	NINE MONTHS ENDED		FISCAL YEAR ENDED	NINE MONTHS ENDED	
	DECEMBER 31, 1994	DECEMBER 31, 1995	APRIL 26, 1997	JANUARY 25, 1997	JANUARY 24, 1998	APRIL 26, 1997	JANUARY 25, 1997	JANUARY 24, 1998
Revenues.........	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Cost of revenues.......	73.4	70.3	71.2	71.5	71.2	69.7	69.7	71.4
Gross profit...	26.6	29.7	28.8	28.5	28.8	30.3	30.3	28.6
Selling, general and administrative expenses.......	22.9	26.5	22.7	20.9	20.6	24.4	22.9	20.9
Non-recurring acquisition costs..........			0.9	1.1		0.5	0.6	
Restructuring costs..........		1.7	0.1					
Operating income.......	3.7	1.5	5.1	6.5	8.2	5.4	6.8	7.7
Interest expense, net............	2.5	3.6	2.1	2.2	1.6	2.1	1.9	1.7
Other (income) expense........	(0.1)		(0.1)	(0.1)	0.2		(0.1)	.2
Income (Loss) before provision for income taxes...	1.3	(2.1)	3.0	4.5	6.4	3.3	5.0	5.8
Provision for (benefit from) income taxes...	0.2	0.1	(1.3)	2.3	2.9	0.0	2.3	2.7
Net income (Loss).........	1.1%	(2.2)%	4.3%	2.2%	3.5%	3.3%	2.7%	3.1%

CONSOLIDATED HISTORICAL RESULTS OF OPERATIONS

NINE MONTHS ENDED JANUARY 24, 1998 COMPARED TO NINE MONTHS ENDED JANUARY 25, 1997

Consolidated revenues increased 54.9%, from $160.0 million for the nine months ended January 25, 1997, to $247.9 million for the nine months ended January 24, 1998. This increase was primarily due to the inclusion of revenues from the seven companies acquired in business combinations accounted for under the purchase method during the nine months ended January 24, 1998 (the "Fiscal 1998 Purchased Companies") from their respective dates of acquisition and revenues from the six companies acquired during fiscal 1997 in business combinations accounted for under the purchase method ("the Fiscal 1997 Purchased Companies") for the entire nine month period. Revenues also increased due to sales to new accounts, increased sales to existing customers and higher pricing on certain products in response to increased product costs. Product cost is the most significant element in cost of revenues. Inbound freight, occupancy and delivery charges are also included in cost of revenues.

Gross profit increased 56.5%, from $45.6 million, or 28.5% of revenues, for the nine months ended January 25, 1997 to $71.4 million, or 28.8% of revenues, for the nine months ended January 24, 1998. The increase in gross profit as a percentage of revenues was due primarily to an increase in revenues from higher margin products, primarily as a result of the purchase acquisitions of three companies selling higher margin specialty product lines during the nine months ended January 24, 1998, and as a result of improved purchasing power and rebate programs negotiated with vendors. These factors were

partly offset by an increase in the cost of revenues as a result of the increased freight costs caused by the UPS strike in the summer of 1997 and an increase in the portion of revenues represented by lower margin bid revenues.

Selling, general and administrative expenses include selling expenses (the most significant component of which is sales wages and commissions), catalog costs, general administrative overhead (which includes information systems and customer service), and accounting, legal, human resources and purchasing expenses. Selling, general and administrative expenses increased 52.7%, from $33.4 million, or 20.9% of revenues, for the nine months ended January 25, 1997 to $51.0 million, or 20.6% of revenues, for the nine months ended January 24, 1998. The decrease in selling, general and administrative expenses as a percentage of revenues was due primarily to efficiencies generated from the elimination of certain redundant administrative functions, including purchasing, accounting, finance and information systems, of the Fiscal 1997 Purchased Companies and the consolidation of two warehouses into one regional facility in the Northeastern U.S during the third quarter of fiscal 1997. School Specialty has established a 24-month integration process in which a transition team is assigned to (i) sell or discontinue incompatible business units, (ii) reduce the number of SKUs, (iii) eliminate redundant administrative functions, (iv) integrate the acquired entity's MIS system, and (v) improve buying power. However, the length of time it takes the Company to fully implement its strategy for assimilating an acquired company can vary depending on the nature of the company acquired and the season in which it is acquired.

The Company incurred non-recurring acquisition costs of $1.8 million for the nine months ended January 25, 1997, in conjunction with the acquisition of the Pooled Companies. These non-recurring acquisition costs included accounting, legal, investment-banking fees, real estate and environmental assessments and appraisals and various regulatory fees. Generally accepted accounting principles ("GAAP") require the Company to expense all acquisition costs (both those paid by the Company and those paid by the sellers of the acquired companies) related to business combinations accounted for under the pooling-of-interests method of accounting. In accordance with GAAP, the Company will be unable to utilize the pooling-of-interests method to account for acquisitions for a period of two years following the completion of the Strategic Restructuring Plan. During this period, the Company will not reflect any non-recurring acquisition costs in its results of operations, as all costs incurred of this nature would be related to acquisitions accounted for under the purchase method and would, therefore, be capitalized as a portion of the purchase consideration. See "Risk Factors--Risks Related to Inability to Use Pooling-of-Interests Method to Account for Future Acquisitions".

Since U.S. Office Products' acquisition of the Pooled Companies, interest has been allocated to the Company based upon the Company's average outstanding payable balance with U.S. Office Products at U.S. Office Products' weighted average interest rate during such period. Interest expense, net of interest income, increased 22.5%, from $3.3 million for the nine months ended January 25, 1997 to $4.0 million for the nine months ended January 24, 1998. The increase was due primarily to higher amounts payable to U.S. Office Products incurred as a result of the acquisition of the seven companies acquired in fiscal 1998.

Provision for income taxes increased from $3.8 million for the nine months ended January 25, 1997 to $7.1 million for the nine months ended January 24, 1998, reflecting effective income tax rates of 51.0% and 44.6%, respectively. The high effective income tax rates for the nine months ended January 25, 1997 and January 24, 1998, compared to the federal statutory rate of 35.0%, was primarily due to state income taxes and non-deductible goodwill amortization.

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

Consolidated revenues increased 27.4%, from $150.5 million in 1995, to $191.7 million in fiscal 1997. This increase was primarily due to the inclusion, for fiscal 1997, of revenues from the Fiscal 1997

Purchased Companies from their respective dates of acquisition, sales to new accounts, increased sales to existing customers and higher pricing on certain products in response to increased product costs.

Gross profit increased 23.4%, from $44.7 million, or 29.7% of revenues, in 1995 to $55.2 million, or 28.8% of revenues, in fiscal 1997. The decrease in gross profit as a percentage of revenues was due primarily to a shift in revenue mix, resulting from the acquisition of the Fiscal 1997 Purchased Companies, which traditionally had lower gross profits as a percentage of revenues. This decrease was partially offset by improved purchasing and rebate programs negotiated with vendors and the Company's ability to take advantage of term discounts due to improved cash flows.

Selling, general and administrative expenses increased 9.0%, from $39.9 million, or 26.5% of revenues, in 1995 to $43.5 million, or 22.7% of revenues, in fiscal 1997. The decrease in selling, general and administrative expenses as a percentage of revenues was due primarily to the consolidation of two warehouses into one regional facility in the Northeastern U.S. during third quarter of fiscal 1997, the elimination of certain redundant administrative functions of a company acquired during 1995 in a business combination accounted for under the purchase method (the "1995 Purchased Company") and reduced

executive compensation expense at one of the Pooled Companies after being acquired by U.S. Office Products in July 1996.

The Company has historically utilized grants of employee stock options as a method of incentivizing employees by increasing their ownership interests in the Company, which also has the effect of more closely aligning their interests with the interests of stockholders of the Company. As a result, if the Company had recorded compensation expense based upon the fair market value of the stock options on the dates of grant under the methodology prescribed by SFAS 123, the Company's income from continuing operations for the fiscal year ended April 26, 1997 would have been reduced by approximately $0.7 million or 7.7%.

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

The Company incurred restructuring costs of $2.5 million and $194,000 during 1995 and fiscal 1997, respectively. These costs represent the external costs and liabilities to close redundant Company facilities, severance costs related to the Company's employees and other costs associated with the Company's restructuring plans. The Company expects to incur similar costs in the future as the Company continues to review its operations, with the intention of continuing to eliminate redundant facilities. See "Business-- Cost Reduction and Other Efficiencies".

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

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

Products, because it was deemed "more likely than not", based on improved results, that the tax benefit from such operating loss carryforwards would be realized. The Company believes that the effective income tax rate of 46% reflected in the pro forma interim financial statements is more representative of future effective income tax rates.

YEAR ENDED DECEMBER 31, 1995 COMPARED TO YEAR ENDED DECEMBER 31, 1994

Consolidated revenues increased 25.9%, from $119.5 million in 1994, to $150.5 million in 1995. This increase was primarily due to the inclusion in 1995 of the 1995 Purchased Company from its date of acquisition and revenues from one company acquired in a business combination accounted for under the purchase method of accounting during 1994 (the "1994 Purchased Company") for the entire

year.

Gross profit increased 40.8%, from $31.8 million, or 26.6% of revenues, in 1994 to $44.7 million, or 29.7% of revenues, in 1995. The increase in gross profit as a percentage of revenues was due primarily to a shift in revenue mix, primarily attributed to the acquisition of the 1995 Purchased Company, which had a higher gross profit as a percentage of revenues and a reduction in lower margin bid revenues.

Selling, general and administrative expenses increased 46.1%, from $27.3 million, or 22.8% of revenues, in 1994 to $39.9 million, or 26.5% of revenues, in 1995. The increase in selling, general and administrative expenses as a percentage of revenues was due primarily to the 1994 and 1995 Purchased Companies, which operated with higher levels of selling, general and administrative expenses as a percentage of revenues.

Interest expense, net of interest income, increased 84.1%, from $3.0 million in 1994 to $5.5 million in 1995. The increase was due primarily to additional borrowings to finance the acquisition of the 1995 Purchased Company, a full year of interest expense on debt incurred to finance the acquisition of the 1994 Purchased Company and higher average borrowings on the Company's revolving credit facility resulting from financing the operations of the 1994 and 1995 Purchased Companies.

Provision for income taxes decreased from $218,000 in 1994 to $173,000 in 1995. The Company incurred a tax expense in 1995, notwithstanding the fact that it reported a pre-tax loss, because one of the Pooled Companies' earnings were not offset by the other Pooled Companies' loss. The low effective income tax rate of 14.0% in 1994 is due to the Company's utilization of a net operating loss carryforward the benefit of which had not been reflected as income in prior years.

CONSOLIDATED PRO FORMA RESULTS OF OPERATIONS

The unaudited pro forma combined financial data does not purport to represent the results that the Company would have obtained had the transactions which are the subject of pro forma adjustments occurred May 1, 1996, as assumed, and are not necessarily representative of the Company's results of operations in any future period.

NINE MONTHS ENDED JANUARY 25, 1997 COMPARED TO NINE MONTHS ENDED JANUARY 24, 1998

Pro forma revenues increased 9.0%, from $292.2 million for the nine months ended January 25, 1997, to $318.7 million for the nine months ended January 24, 1998. This increase was primarily due to sales to new accounts, increased sales to existing customers, and higher pricing on certain products in response to increased product costs.

Gross profit increased 3.0%, from $88.5 million, or 30.3% of revenues, for the nine months ended January 25, 1997 to $91.2 million, or 28.6% of revenues, for the nine months ended January 24, 1998. The decrease in gross profit as a percentage of revenues was primarily due to higher freight costs as a result of the UPS strike in the summer of 1997 and an increase in the portion of revenues represented by lower margin bid revenues and the discontinuation of higher margin retail operations at some of the Fiscal 1997 Purchased Companies.

Selling, general and administrative expenses were $65.0 million, or 22.2% of revenues, for the nine months ended January 25, 1997 and $64.7 million, or 20.3% of revenues, for the nine months ended January 24, 1998. The decrease in selling, general and administrative expenses as a percentage of revenues reflects the elimination of certain redundant administrative functions, including purchasing, accounting, finance and information systems of the Fiscal 1997 Purchased Companies and the consolidation of two warehouses into one regional facility in the Northeastern U.S. during the third quarter of fiscal 1997. The Company has a 24-month integration strategy to consolidate operations of purchased businesses; however, the length of time it takes for the Company to fully implement its strategy for assimilating an acquired company can vary depending on the nature of the company acquired and the season in which it is acquired. See "Business--Company Strengths--Ability to Integrate Acquisitions." The decrease in selling, general and administrative expense as a percentage of revenues was partly offset by the inclusion of the pro forma results of Education Access, which the Company acquired out of a bankruptcy proceeding in March 1998.

Provision for income taxes increased 28.0% from $6.7 million for the nine months ended January 25, 1997 to $8.5 million for the nine months ended January 24, 1998, reflecting an effective income tax rate of 46.0% in both periods. The high effective income tax rate, compared to the federal statutory rate of 35.0%, was primarily due to state income taxes and non-deductible goodwill amortization.

LIQUIDITY AND CAPITAL RESOURCES

Subsequent to the acquisition by U.S. Office Products of the Pooled Companies and prior to the Distribution, U.S. Office Products funded the cash portions of School Specialty's acqusitions, paid the acquisition costs, repaid outstanding debt of acquired companies, allocated a portion of U.S. Office Products' corporate expenses to School Specialty and made daily advances or sweeps of cash to keep School Specialty's cash balance at or near zero on a daily basis. The net amount of such transactions was recorded as a payable from School Specialty to U.S. Office Products.

At January 24, 1998, the Company had working capital of $43.6 million. The Company's capitalization, defined as the sum of long-term debt, long-term payable to U.S. Office Products and stockholders' equity, at January 24, 1998 was $161.3 million. On a pro forma basis at January 24, 1998, the Company had working capital of $60.6 million and capitalization of $181.5 million.

During the nine months ended January 24, 1998, net cash provided by operating activities was $15.4 million. Net cash used in investing activities was $96.5 million, including $92.1 million for acquisitions and $4.1 million for additions to property and equipment. Net cash provided by financing activities was $81.1 million, including $89.2 million provided by U.S. Office Products to fund the cash portion of the purchase price and the repayment of debt assumed with the acquisition of the fiscal 1998 Purchased Companies, $69.8 million of which was considered a contribution of capital by U.S. Office Products, partially offset by $8.0 million used to repay indebtedness.

During the nine months ended January 25, 1997, net cash provided by operating activities was $4.2 million. Net cash used in investing activities was $14.7 million, including $7.6 million for acquisitions, $5.3 million for additions to property and equipment and $1.7 million to pay non-recurring acquisition costs. Net cash provided by financing activities was $11.2 million, including $55.0 million provided by U.S. Office Products to fund the cash portion of the purchase price and the repayment of debt associated with 1997 Purchased Companies acquired during the nine months ended January 25, 1997, partially offset by $46.9 million used for the repayment of indebtedness, primarily at the 1997 Purchased Companies acquired during the nine months ended

January 25, 1997.

During fiscal 1997, net cash provided by operating activities was $918,000. Net cash used in investing activities was $16.7 million, including $7.7 million for acquisitions, $7.2 million for additions to property and equipment and $1.8 million to pay non-recurring acquisition costs. Net cash provided by financing activities was $15.8 million, including $59.9 million provided by U.S. Office Products to fund the

cash portion of the purchase price and the repayment of debt associated with the fiscal 1997 Purchased Companies and the payment of debt of the Pooled Companies, partially offset by $46.9 million used for the net repayment of indebtedness, primarily at the fiscal 1997 Purchased Companies.

During 1995, net cash provided by operating activities was $4.8 million. Net cash used in investing activities was $6.0 million, including $5.4 million for acquisitions and $881,000 for additions to property and equipment. Net cash provided by financing activities was $1.2 million, including net proceeds from the issuance of debt of $2.4 million and $500,000 received from the issuance of common stock, partially offset by payments of indebtedness of $1.5 million.

During 1994, net cash used in operating activities was $268,000. Net cash used in investing activities was $2.9 million, including $2.1 million for acquisitions and $630,000 for additions to property and equipment. Net cash provided by financing activities was $3.2 million, consisting of proceeds from the issuance of debt of $5.1 million, partially offset by payments of indebtedness of $2.0 million.

The Company's anticipated capital expenditures budget for the next twelve months is approximately $3.0 million. The largest items include operational and financial reporting software, computer hardware and warehouse equipment.

Under the Distribution Agreement, the Company is required, on or prior to the Distribution, to obtain a credit facility, to borrow funds under such facility and to use the proceeds of such borrowings to pay off $83.3 million of U.S. Office Products' debt, as described under "The Spin-Off from U.S. Office Products--Distribution Agreement--Debt". The Company has received a committment letter for a secured $250.0 million revolving credit facility from NationsBank, N.A. as administrative agent. NationsBanc Montgomery Securities LLC, one of the Underwriters and an affiliate of NationsBank, N.A., is the Arranger and Syndication Agent. The credit facility will terminate five years from the Distribution Date. Interest on borrowings under the credit facility will accrue interest at a rate of, at the Company's option, either LIBOR plus 1.00% or the lender's base rate, plus a margin of 0% to .25% for up to the first 6 months under the agreement. Thereafter, interest will accrue at a rate of (i) LIBOR plus a range of .625% to 1.625% or (ii) the lender's base rate plus a range of .125% to .250% (depending on the Company's leverage ratio of funded debt to EBITDA). Indebtedness will be secured by substantially all of the assets of the Company. The credit facility will be subject to terms and conditions typical of facilities of such size and will include certain financial covenants. The Company will borrow under the credit facility to repay the U.S. Office Products' debt which it is obligated under the Distribution Agreement to repay. The balance of the credit facility (subject to compliance with financial covenants), will be available for working capital, capital expenditures and acquisitions.

School Specialty intends to use the net proceeds from the Offering and the sale of 250,000 shares of Common Stock to Messrs. Spalding, Vander Zanden and Pate to repay a portion of the $83.3 million to be borrowed under a $250 million

credit facility to refinance all amounts payable to U.S. Office Products. After such repayment, approximately $200 million will be available under the credit facility (subject to compliance with the financial covenants), which may be used for general corporate purposes, including working capital, and for acquisitions.

FLUCTUATIONS IN QUARTERLY RESULTS OF OPERATIONS

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

Quarterly results also may be materially affected by the timing of acquisitions, the timing and magnitude of costs related to such acquisitions, variations in the prices paid by the Company for the products it sells, the mix of products sold and general economic conditions. Moreover, the operating margins of companies acquired by the Company may differ substantially from those of the Company,

which could contribute to the further fluctuation in its quarterly operating results. Therefore, results for any quarter are not indicative of the results that the Company may achieve for any subsequent fiscal quarter or for a full fiscal year.

The following table sets forth certain unaudited consolidated quarterly financial data for the year ended December 31, 1995, fiscal 1997 and the first three quarters of fiscal 1998 (in thousands). The information has been derived from unaudited consolidated financial statements that in the opinion of management reflect all adjustments, consisting only of normal recurring accruals, necessary for a fair presentation of such quarterly information. This quarterly information is not comparative because of the high degree of seasonability in School Specialty's business. Revenues and profitability are significantly higher in the months of May through October, with the most significant portion of revenue and profit occurring in the months of July through September. On a fiscal year basis (years ending in April), this six-month (May through October) period falls in the first two quarters of the fiscal year. On a calendar year basis, the most profitable three months (July through September) fall in the third quarter.

	YEAR ENDED DECEMBER 31, 1995				
	FIRST	SECOND	THIRD	FOURTH	TOTAL
Revenues	$ 18,760	$ 36,702	$ 69,192	$ 25,828	$ 150,482
Gross profit	4,960	11,130	20,795	7,840	44,725
Operating income (loss)	(3,014)	1,196	8,934	(4,792)	2,324
Net income (loss)	(3,711)	(252)	4,309	(3,713)	(3,367)

	YEAR ENDED APRIL 26, 1997				
	FIRST	SECOND	THIRD	FOURTH	TOTAL
Revenues	$ 58,991	$ 71,682	$ 29,304	$ 31,769	$ 191,746
Gross profit	18,110	19,823	7,664	9,572	55,169
Operating income (loss)	5,197	6,732	(1,520)	(688)	9,721
Net income (loss)	1,981	2,692	(1,067)	4,526(1)	8,132

	NINE MONTHS ENDED JANUARY 24, 1998			
	FIRST	SECOND	THIRD	TOTAL
Revenues	$ 87,029	$ 111,460	$ 49,391	$ 247,880
Gross profit	26,090	33,619	11,670	71,379
Operating income (loss)	11,872	12,155	(3,647)	20,380
Net income (loss)	5,804	5,965	(2,934)	8,835

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

INFLATION

The Company does not believe that inflation has had a material impact on its results of operations during the years ended December 31, 1994 and 1995 or the fiscal year ended April 26, 1997.

NEW ACCOUNTING PRONOUNCEMENT

REPORTING COMPREHENSIVE INCOME. In June 1997, FASB issued SFAS No. 130, "Reporting Comprehensive Income". SFAS No. 130 establishes standards for reporting and display of comprehensive income and its components (revenues, expenses, gains, and losses) in a full set of general-purpose financial statements. SFAS No. 130 requires that all items that are required to be recognized under accounting standards as components of comprehensive income be reported in a financial statement that is displayed with the same prominence as other financial statements. SFAS No. 130 is effective for fiscal years beginning after December 15, 1997. Reclassification of financial statements for earlier periods provided for comparative purposes is required. The Company intends to adopt SFAS No. 130 in fiscal 1999.

INDUSTRY OVERVIEW

The school supply market consists of the sale of non-textbook school supplies, furniture and equipment to school districts, individual schools, teachers and curriculum specialists who purchase products for school and classroom use. The Company believes that sales of educational supplies and equipment (which is defined as educational products sold by dealers for use by educational institutions or as a supplement to learning outside of the classroom) to the school supply market is approximately $6.1 billion, with over $3.6 billion sold to institutions and $2.5 billion sold to consumers.

According to the U.S. Department of Education, in all 50 states, there are 15,996 school districts, 108,577 public and private elementary and secondary schools, and 3.1 million teachers. School supply procurement decisions are made at the school district level by administrators and curriculum specialists, at the school level by principals and at the classroom level by teachers. Some school supplies are purchased directly from manufacturers while others are purchased through distributors. The Company believes that there are over 3,400 distributors of school supplies. The majority of these distributors are family- or employee-owned companies with revenues under $20 million that operate in a single region. In addition to School Specialty, only two other companies have a measurable presence in the market, with annual revenues in excess of $130 million. School Specialty believes the demand for timely order fulfillment at competitive prices, combined with the need to invest in automated inventory

management systems and electronic ordering systems, is accelerating the trend toward consolidation in the industry.

The volume of school supplies is directly influenced by the size of the student population. According to the U.S. Department of Education, student enrollment in grades K-12 began growing in 1986, reaching an all-time peak in 1996 with 51.5 million students (1997 data not yet available). Current projections by the U.S. Department of Education indicate that student enrollment will continue to grow to 54.3 million by the year 2006. As a result of these trends, the U.S. Department of Education projects that expenditures in public elementary and secondary schools will rise through the year 2007. In current dollars, expenditures of $272.4 billion in 1997 are projected to increase to $340.7 billion by the year 2001. These projected increases in expenditures include a projected increase in total per pupil spending in current dollars from $5,961 per pupil in 1997 to $7,179 by the year 2001.

BUSINESS

School Specialty is a Delaware corporation formed in February 1998 to hold the Educational Supplies and Products Division of U.S. Office Products. School Specialty, Inc., a Wisconsin corporation ("Old School") formed in October 1959, was acquired by U.S. Office Products in May 1996. U.S. Office Products' Educational Supplies and Products Division also includes Re-Print, which it acquired in July 1996, and which has been in operation since 1921. The specialty product lines, Childcraft, Sax Arts & Crafts and Gresswell, were all acquired by U.S. Office Products in 1997, and have been in operation since 1946, 1945, and 1938, respectively. School Specialty has 1,322 employees in the United States and the United Kingdom, providing service to all 50 states and the United Kingdom. School Specialty's principal offices are located at 1000 North Bluemound Drive, Appleton, Wisconsin 54914, and its telephone number is (920) 734-2756. School Specialty's world wide website is located at http:\\www.schoolspecialty.com. Information contained in this website is not deemed to be a part of this Prospectus.

COMPANY STRENGTHS

School Specialty attributes its strong competitive position to the following key strengths:

LEADING MARKET POSITION. The Company has developed its leading market position over its 38 year history by emphasizing high quality products, superior order fulfillment and exceptional customer service. School Specialty has developed a group of strong brand names including School Specialty, Re-Print, Childcraft, Sax Arts & Crafts and Gresswell. The Company believes its annual revenues exceed those of its next two largest competitors combined and that its large size and brand recognition have resulted in significant buying power, economies of scale and customer loyalty.

BROAD PRODUCT LINE. School Specialty's strategy is to provide a full range of high quality products to meet the complete supply needs of pre-K-12 schools and, as a result, currently offers over 32,000 SKUs ranging from classroom supplies to playground equipment. The Company's specialty brands enrich its general product offering and create opportunities to cross merchandise its specialty school supplies to the customers of its general lines. Specialty brands include Childcraft, which sells materials, classroom furniture and equipment such as library shelving, cubbies, easels, desks and play vehicles to the early childhood market; Sax Arts & Crafts, which distributes art supplies such as paint, brushes, paper, ceramics, leather and wood crafts; and Gresswell, which distributes library-related products including supplies, furniture and media display and storage in the United Kingdom. School Specialty offers customers one source for virtually all of their school supply and furniture needs.

INNOVATIVE TWO-PRONGED DISTRIBUTION. School supply procurement decisions are made at the district and school levels by administrators and principals, and

at the classroom level by curriculum specialists and teachers. The Company targets both of these groups, addressing administrative decision makers with a "top down" approach through its 290 person sales force and School Specialty Catalog, and targeting teachers and curriculum specialists with a "bottom up" approach primarily through the 6.3 million Re-Print general supply, Childcraft, Sax Arts & Crafts and Gresswell specialty catalogs mailed each year. School Specialty utilizes its customer database across its family of catalogs to maximize their effectiveness and increase the Company's marketing reach.

ABILITY TO INTEGRATE ACQUISITIONS. School Specialty has successfully completed the acquisition of 20 companies since 1991, 15 of which have been acquired since May 1996. School Specialty has established a 24-month integration process in which a transition team is assigned to (i) sell or discontinue incompatible business units, (ii) reduce the number of SKUs, (iii) eliminate redundant administrative functions, (iv) integrate the acquired entity's MIS system, and (v) improve buying power. To date, the Company's integration efforts have focused on acquired general products companies. The Company intends to consolidate certain administrative functions at its specialty divisions. The Company believes that through these processes it can generate significant economies of scale and rapidly improve the

margins of acquired entities, as well as increase sales by channeling acquired entities' products through its broad distribution network.

USE OF TECHNOLOGY. The Company believes that through the utilization of technology in areas such as (i) purchasing and inventory management, (ii) customer order fulfillment, and (iii) database management, School Specialty is able to turn inventory more quickly than competitors, offer customers more convenient and cost effective product ordering methods and conduct more precisely targeted sales and marketing campaigns.

EXPERIENCED MANAGEMENT. School Specialty's management team provides depth and continuity of experience. Management's interests are aligned with those of its shareholders as management's incentive-based compensation is tied to School Specialty's operating profitability.

COMPANY GROWTH STRATEGY

School Specialty's objective is to further enhance its position as the leading distributor of non-textbook educational supplies through the continued implementation of the following strategies:

PURSUE ACQUISITIONS AGGRESSIVELY. The Company believes that there are extensive acquisition opportunities among the over 3,400 school distributors in the U.S. The Company intends to pursue two types of acquisitions: (i) general school supply and furniture companies in geographic markets in which the Company has a limited presence, and (ii) specialty companies focusing on disciplines such as physical education, science, technology and music. School Specialty believes it can improve the margins of acquired entities through its efficient integration process to achieve economies of scale. Although the Company is the largest distributor in the industry, its share of the $6.1 billion school supply market is less than 6%, giving the Company substantial growth opportunities.

IMPROVE PROFITABILITY. School Specialty improved its operating margin from 3.7% in 1994 to 7.0% for the twelve months ended January 24, 1998. School Specialty believes that there are substantial opportunities to further improve margins by (i) increasing the efficiency of recent acquisitions, (ii) expanding purchasing power and (iii) improving warehousing and distribution.

PENETRATE NEW MARKETS AND EXPAND CUSTOMER BASE IN EXISTING MARKETS. School Specialty believes that it can increase sales by adding sales representatives in geographic markets in which the Company does not have a significant presence. In addition, the Company believes that it can further increase sales by cross merchandising its specialty supplies to its general supplies customers. Lastly, the Company intends to increase international sales in English-speaking countries.

PRODUCT LINES

SCHOOL SPECIALTY. The School Specialty Catalog offers a comprehensive selection of classroom supplies, instructional materials, educational games, art supplies, school forms (such as reports, planners and academic calendars), physical education equipment, audio-visual equipment, school furniture, and indoor and outdoor equipment and is targeted to administrative decision makers. School Specialty believes it is the largest school furniture resale source in the United States. School Specialty has been granted exclusive franchises for certain furniture lines in specific territories and School Specialty enjoys significant purchasing power in open furniture lines.

The Company's specialty brands offer product lines for specific educational disciplines.

RE-PRINT. Re-Print offers its customers substantially the same products as the School Specialty Catalog but focuses on reaching teachers and curriculum specialists directly through its mail-order catalogs.

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

SAX ARTS & CRAFTS. Sax Arts & Crafts is a leading distributor of art supplies and art instruction materials, including paints, brushes, paper, ceramics, art metals and glass, leather and wood crafts. Sax Arts & Crafts offers customers a toll free "Art Savvy Hotline" staffed with 15 professional artists to respond to customer questions.

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

EDUCATION ACCESS. Education Access is a catalog reseller of technology solutions for the K-12 education market. This new product line will offer curriculum software, productivity software, peripherals, networking products, and other related products. Education Access publishes a 110-page catalog twice a year and mails interim Technology Flash Updates to the K-12 market in the United States.

School Specialty employs merchandising managers who continually review and update the product lines for each operating division. The merchandising managers convene customer focus groups and advisory panels to ascertain whether current offerings are well-received and to anticipate future demand. The merchandising managers also travel to product fairs and conventions seeking out new product lines. This annual review process results in an organic reshaping and expansion of the educational materials being offered by School Specialty.

OPERATIONS

SALES AND MARKETING

School Specialty believes it has developed a substantially different sales and marketing model from that of traditional school supply and school furnishings distribution companies in the United States. School Specialty's strategy is to use its position of owning two distribution platforms with which it can approach the school market. School Specialty's 290 sales representatives focus on "top down" selling (through districts, school purchasing authorities and schools), while School Specialty's Re-Print Division uses the "bottom up" approach through its direct mail catalog selling directly to teachers. To further strengthen its position in the market, School Specialty also owns premier specialty education brands (Childcraft, Sax Arts & Crafts, and

Gresswell) that have the potential to enrich the general product offering through cross-merchandising.

School Specialty has a broad customer base and no single customer accounted for more than 2% of sales during fiscal 1997. Schools typically purchase school supplies and furniture based on an established relationship with relatively few suppliers. School Specialty establishes and maintains its relationship with its customers by assigning accounts within a specific geographic territory to a local area sales representative. Additionally, each account is assigned its designated inside customer service representative.

School Specialty's customer service representatives call on existing customers frequently to ascertain and fulfill their school supply needs. The representatives maintain contact with customers throughout the order cycle and assist in processing orders.

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

School Specialty utilizes direct mail catalogs to reach its broader customer base. School Specialty distributes five major catalogs, one for each of its School Specialty general supply, Re-Print, Childcraft,

Gresswell, and Sax Arts & Crafts lines. The catalog distribution calendar is generally the same across all product lines. A major catalog containing all product offerings is distributed toward the end of the calendar year so that it is available for school buyers at the beginning of the year. During the year, various catalog supplements are distributed to coincide with the peak school buying season in June through September and following the return of students to school in the fall.

The approximate number of catalogs distributed for School Specialty, Re-Print, Childcraft, Gresswell and Sax Arts & Crafts for each of the past three calendar years and projected catalog distribution for 1998 is set out below. The figures set forth below include all books of over 32 pages sent out (or, with respect to 1998, expected to be sent out) during the calendar year but do not include catalogs that were distributed by discontinued operations.

	1995	1996	1997	1998
School Specialty Catalog	115,000	296,750	450,750	600,000
Re-Print	998,000	1,175,000	2,275,000	3,400,000
Childcraft	1,583,000	1,308,000	1,360,000	1,728,000
Gresswell	100,000	180,000(1)	130,000	150,000
Sax Arts & Crafts	750,000	823,000	1,043,500	1,064,000
Total	3,546,000	3,782,750	5,259,250	6,942,000

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(1) Includes an extra catalog published against a competitive launch.

Pricing for School Specialty's general and specialty product offerings varies by product and channel of distribution. The Company generally offers a negotiated discount from catalog prices for supplies and responds to quote and bid requests for furniture and equipment. In addition, local sales representatives work with the Company's corporate sales force and school supply buyers to achieve an acceptable pricing structure based upon the mix of products being procured.

School Specialty distributes products through its distribution centers as well as placing customer orders directly with School Specialty's suppliers. Furniture is generally shipped directly from the manufacturer to the user, bypassing School Specialty's distribution centers.

PURCHASING AND INVENTORY MANAGEMENT

School Specialty manages its inventory by continually reviewing daily inventory levels compared to a running 90-day inventory for the previous year, adjusted for incoming orders. School Specialty constantly refines the focus of inventory products through its automated inventory management system to pursue the optimum level of scope and depth of product offered. Every item in each of the various distribution regions is forecasted on a daily basis to account for the anticipated demand curve, current order activity, and available stock as well as the expected lead time from the supplier. The forecast allows inventory purchases to respond quickly to the high seasonal demand while keeping off-season inventory to a minimum. The information systems for all of School Specialty's distribution centers are interconnected to allow transfer of inventory between facilities to fill regional demand. In addition, all orders can be redirected to the distribution center which is the primary stocking location for a product. School Specialty's inventory management results in inventory turnover that management believes is higher than industry turnover rates and reduces the level of discontinued, excess and obsolete inventory compared to businesses acquired by School Specialty.

School Specialty believes its large size enhances its purchasing power with suppliers and results in lower product costs than most of the Company's competitors. Further, School Specialty believes it can leverage this purchasing power to acquired companies in the future to improve the operating margins for both general supply and specialty businesses. The Company also believes its purchasing power for general supplies should result in improved margins for its specialty businesses.

Market surveys by Krebs and Company have shown that the primary determinants of customer satisfaction in the educational supply industry are the completeness and accuracy of shipments received and the timeliness of delivery. School Specialty continues to invest in sophisticated computer systems to automate the order taking, inventory allocation and management, and order shipment processes. As a result, School Specialty has been able to provide superior order fulfillment to its customers. In addition, School Specialty has developed OMS, which allows schools to customize their orders and enter them electronically with School Specialty and provides historical usage reports to schools useful for their budgeting process. During the academic year, School Specialty seeks to fill orders within twenty-four hours of receipt of the order at a 95.0% fill rate and a 99.5% order accuracy rate. During the summer months, School Specialty shifts to a production environment and schedules shipments to coincide with the start of the school year. During the summer months, School Specialty's objectives are to meet a 100% fill rate at a 99.5% order accuracy rate. In the aggregate, School Specialty's order fill rate for June, July and August 1997 exceeded 97.0%. The Company defines "fill rate" as the percentage of line items in a customer's order that are initially shipped to the customer in response to the order by the requested ship date.

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

INFORMATION SYSTEMS

The Company believes that through the utilization of technology in areas such as (i) purchasing and inventory management, (ii) customer order fulfillment and (iii) database management, School Specialty is able to turn inventory more quickly than competitors, offer customers more convenient and cost effective

product ordering methods and conduct more precisely targeted sales and marketing campaigns. School Specialty uses two principal information systems, one for its general distribution and another for its specialty market distribution. In general school supply distribution, School Specialty utilizes a specialized distribution software package used primarily by office products and paper distributors. The software offers a fully integrated process from sales order entry through customer invoicing, and inventory requirements planning through accounts payable. School Specialty's system provides information through daily automatic posting to the general ledger and integrated inventory control. School Specialty has made numerous enhancements to this process that allow greater flexibility in addressing seasonal requirements of the industry and meeting specific customer needs.

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

Although School Specialty has two principal information systems, these systems integrate general ledger, purchasing and inventory management functions. The software and hardware allow for continued incremental growth as well as the opportunity to integrate new client-server and other technologies into the information systems. Currently, all acquired School Specialty general distribution companies (except one acquired in December 1997) are on the same computer system. The specialty businesses and Re-Print operate on different systems but intend to implement the common MACS system. School Specialty intends to continue to use two principal information systems in its business.

YEAR 2000 COMPLIANCE

School Specialty's current information systems as well as those being considered for acquisition by School Specialty's mail order and specialty distribution divisions, currently meet information standards for Year 2000 compliance. School Specialty does not expect that it will incur any material costs and

expenses related to bringing its information systems to Year 2000 compliance. See "Risk Factors-- Dependence on Systems".

COMPETITION

School Specialty operates in a highly competitive environment. The Company's principal competitors are other national and regional school supply distribution companies. School Specialty is also faced with increasing competition from non-traditional alternate channel competitors, such as office products contract stationers and superstores. Among traditional school supply distributors, School Specialty believes that there are only two other companies with sales in excess of $130 million: Beckley-Cardy and the J.L. Hammett Co. School Specialty believes that it competes favorably with these companies on the basis of service and price.

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

EMPLOYEES

As of December 31, 1997, School Specialty had 1,322 full-time employees, 266 of whom were employed primarily in management and administration, 430 in regional warehouse and distribution operations, and 626 in marketing, sales, order processing, and customer service. To meet the seasonal demands of its customers, School Specialty employs many seasonal employees during the late spring and summer seasons. Historically, School Specialty has been able to meet its requirements for seasonal employment. As of January 12, 1998, approximately 27 of School Specialty's employees were members of the Teamsters Labor Union at Sax Arts & Crafts' New Berlin, Wisconsin facility. School Specialty considers its relations with its employees to be very good.

FACILITIES

School Specialty's corporate headquarters are located at 1000 North Bluemound Drive, Appleton, Wisconsin, a combined office and warehouse facility of approximately 120,000 square feet. School

Specialty's lease on the Appleton headquarters expires on December 31, 2001. School Specialty leases or owns the following distribution facilities.

LOCATIONS	APPROXIMATE SQUARE FOOTAGE	OWNED/ LEASED	LEASE EXPIRATION
Agawam, Massachusetts..........................	163,300	Owned	--
Bethlehem, Pennsylvania........................	25,600	Leased	February 28, 1999
Birmingham, Alabama............................	180,365	Leased	November 20, 2006
Bowling Green, Kentucky........................	42,000	Leased	June 30, 2001
Cary, Illinois.................................	75,767	Owned	--
Enfield, London, England.......................	8,000	Owned	--
Fresno, California.............................	18,480	Leased	December 31, 2001
Hoddesdon, London, England.....................	10,000	Leased	September 1999
Hoddesdon, London, England.....................	10,000	Leased	September 2015
Lancaster, Pennsylvania........................	75,434	Leased	December 31, 2002
Lancaster, Pennsylvania........................	165,750	Leased	February 28, 1999
Mt. Laurel, New Jersey.........................	48,000	Leased	May 31, 2001
New Berlin, Wisconsin..........................	97,500	Leased	March 31, 2002
Oklahoma City, Oklahoma........................	37,340	Leased	July 16, 2001
Pollocksville, North Carolina..................	84,071	Owned	--
Portland, Oregon...............................	30,456	Leased	May 31, 2001
Salina, Kansas.................................	123,000	Owned	--

The Lancaster, Pennsylvania facility is used for manufacturing and the Salina, Kansas facility is used for production of school forms. In addition, School Specialty has ten sales offices throughout the United States.

School Specialty believes that its properties are adequate to support its operations for the foreseeable future. School Specialty reviews on a regular basis the consolidation of its facilities.

MANAGEMENT

DIRECTORS AND EXECUTIVE OFFICERS

Following the School Specialty Distribution, it is anticipated that the directors and executive officers of School Specialty will be as follows:

NAME	AGE	POSITION
Daniel P. Spalding.......................	43	Chairman of the Board and Chief Executive Officer
David J. Vander Zanden...................	43	President, Chief Operating Officer, and Director*

Donald J. Noskowiak......................	40	Executive Vice President and Chief Financial Officer
Douglas Moskonas.........................	53	Executive Vice President for School Specialty Divisions
Melvin D. Hilbrown.......................	49	Executive Vice President for Gresswell
Richard H. Nagel.........................	57	Executive Vice President for Sax Arts & Crafts
Donald Ray Pate, Jr......................	35	Executive Vice President for Re-Print
Ronald E. Suchodolski....................	51	Executive Vice President for Childcraft
Michael J. Killoren......................	41	Vice President for School Specialty Divisions
Lillian R. Kellogg.......................	45	President for Education Access Division
Jonathan J. Ledecky......................	40	Director*
Leo C. McKenna...........................	64	Director*
Rochelle Lamm Wallach....................	48	Director*

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* Messrs. Vander Zanden, Ledecky and McKenna and Ms. Wallach will join the Board of Directors of School Specialty immediately prior to the issuance of the shares offered hereby.

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

DAVID J. VANDER ZANDEN became the Chief Operating Officer of School Specialty in March 1998. Prior to that time, he served as President of Ariens Company since 1992, a manufacturer of outdoor lawn and garden equipment.

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

DOUGLAS MOSKONAS joined Old School in 1993 as Vice President of Sales for the Valley Division. Since that time he has served as General Manager for the Valley Division from 1994 through 1996 and was appointed President of School Specialty Distribution in 1997. Prior to joining School Specialty, Mr. Moskonas served as Vice President of Sales for Emmons-Napp Office Products from 1979 through

1993. As of the School Specialty Distribution, Mr. Moskonas is expected to be elected an Executive Vice President of School Specialty for School Specialty Divisions.

MELVIN D. HILBROWN joined School Specialty as Managing Director of Gresswell with School Specialty's acquisition of Don Gresswell, Ltd. in 1997. He has been Managing Director of Gresswell since 1989. As of the School Specialty Distribution, Mr. Hilbrown is expected to be elected an Executive Vice President of School Specialty for Greswell.

RICHARD H. NAGEL joined School Specialty with the acquisition of Sax Arts & Crafts in 1997 and serves as President of Sax Arts & Crafts. Mr. Nagel has been with Sax Arts & Crafts since 1975 when he was hired as Assistant General Manager. He was named President of Sax Arts & Crafts in 1990. As of the School Specialty Distribution, Mr. Nagel is expected to be elected an Executive Vice President of School Specialty for Sax Arts & Crafts.

DONALD RAY PATE, JR. joined School Specialty with the acquisition of Re-Print in 1996 and serves as President of Re-Print. Mr. Pate has served as President of Re-Print since he acquired it in 1988. As of the School Specialty Distribution, Mr. Pate is expected to be elected an Executive Vice President of School Specialty for Re-Print.

RONALD E. SUCHODOLSKI joined School Specialty with the acquisition of Childcraft in 1997 and serves as President of Childcraft. Mr. Suchodolski has been President of Childcraft since 1995 and was Director of Childcraft's School Division from 1984 through 1989. From 1989 to 1993, Mr. Suchodolski was President of the Judy/Instructo Division of Paramount, and from 1993 through 1995 Mr. Suchodolski served as Senior Vice President of Sales and Marketing for Paramount Publishing's Supplementary Materials Division. As of the School Specialty Distribution, Mr. Suchodolski is expected to be elected an Executive Vice President of School Specialty for Childcraft.

MICHAEL J. KILLOREN has served as Chief Operating Officer of School Specialty Distribution since 1997. From 1992 to 1997, he was Vice President/Operations of School Specialty. Mr. Killoren is Daniel P. Spalding's cousin. As of the School Specialty Distribution, Mr. Killoren is expected to be elected an Vice President of School Specialty for School Speciality Divisions.

LILLIAN R. KELLOGG joined the Company with the acquisition of Education Access in March 1998 and serves as President of the Company's Education Access Division. Ms. Kellogg previously served as Executive Vice President of Education Access, Inc. from March 1997 to March 1998 and as President of Computer Plus, Inc. from March 1984 to March 1997. On January 19, 1998, Education Access, Inc. filed for bankruptcy protection under Chapter 11 of the United States Bankruptcy Code. The Company acquired substantially all of the assets of its catalog division on March 20, 1998.

JONATHAN J. LEDECKY will serve as a Director and an employee of School Specialty as of the Distribution Date. He founded Consolidation Capital Corporation in February 1997 and serves as its Chairman and Chief Executive Officer. Mr. Ledecky founded U.S. Office Products in October 1994 and will serve as its Chairman of the Board until the Distribution Date and served as its Chief Executive Officer until November 5, 1997. Mr. Ledecky has also served as the Non-Executive Chairman of the Board of USA Floral Products, Inc. since April 1997 and as a director of UniCapital Corporation since October 1997. Mr. Ledecky served from 1989 to 1991 as the President of The Legacy Fund, Inc., and from 1991 to September 1994 as President and Chief Executive Officer of Legacy Dealer Capital Fund, Inc., a wholly-owned subsidiary of Steelcase Inc. Prior to his tenure at The Legacy Fund, Inc., Mr. Ledecky was a partner at Adler and Company and a Senior Vice President at Allied Capital Corporation, an investment management company.

LEO C. MCKENNA is a self-employed financial consultant working with personal asset management, corporate planning, acquisitions, merger studies, and negotiations. Mr. McKenna is currently a Member of the Board of Life Insurance Company of Boston and New York (Subsidiary of Boston Mutual Life). He is founder and a director of Ledyard National Bank, where he also serves on the Audit Committee. He is

also a director of Rosenthal, A.G. USA. He is a director and member of the John Brown Cook Foundation and an overseer and Chairman of the Finance Committee for the Catholic Student Center at Dartmouth College.

ROCHELLE LAMM WALLACH was associated with Strong Advisory Services, a division of Strong Capital Management, as its President from 1995 to March 1998.

Prior to that time, she was Chief Operating Officer of AAL Capital Management, a mutual fund manager which she founded in 1986.

The Company intends to name two additional independent directors after the completion of the Offering.

COMMITTEES OF THE BOARD

The School Specialty Board will create an Audit Committee effective immediately prior to the issuance of the shares offered hereby. The Audit Committee is charged with reviewing School Specialty's annual audit and meeting with School Specialty's independent accountants to review School Specialty's internal controls and financial management practices.

The School Specialty Board will create a Compensation Committee effective immediately prior to the issuance of the shares offered hereby. The Compensation Committee is charged with determining the compensation of executive officers of School Specialty and administering any stock option plan School Specialty may adopt.

EXECUTIVE COMPENSATION

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

SUMMARY COMPENSATION TABLE

		ANNUAL COMPENSATION		LONG TERM COMPENSATION	
NAME AND PRINCIPAL POSITION	YEAR	SALARY	BONUS	OPTIONS(#)(1)	ALL OTHER COMPENSATION
Daniel P. Spalding.............	1997	$ 178,846			
Chairman of the Board, CEO and Director	1998	212,104	$ 34,200	150,000	--
Ronald E. Suchodolski(2)........	1997	$ 141,535	$ 30,000	--	--
President, Childcraft	1998	157,646	62,633	20,000	--
Richard H. Nagel(2)(3)..........	1997	$ 118,000	$ 29,500	--	$ 32,000
President, Sax Arts & Crafts	1998	130,660	29,500	20,000	--
Donald Ray Pate, Jr.(2).........	1997	$ 220,901	--	--	--
President, Re-Print	1998	117,000		--	--
Douglas Moskonas................	1997	$ 97,266	$ 44,500	15,000	--
President, School Specialty Division	1998	139,525	--	20,000	--

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(1) The number of U.S. Office Products Options will be adjusted as described under "--Replacement of Outstanding U.S. Office Products' Options."

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

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

OPTIONS GRANTED IN FISCAL YEAR 1998

The following table sets forth certain information regarding options to acquire U.S. Office Products common stock granted to the Named Officers during the year ended April 25, 1998. All options were granted by U.S. Office Products as options to acquire U.S. Office Products Common Stock and are expected to be replaced with options to acquire School Specialty Common Stock in connection with the School Specialty Distribution. See "--Replacement of Outstanding U.S. Office Products' Options". Upon consummation of the School Speciality Distribution, the number of School Specialty options granted to officers, directors and employees of the Company in respect of U.S. Office Products' common stock and their exercise price will be determined according to the formula set by U.S. Office Products.

OPTIONS GRANTED IN FISCAL YEAR ENDED APRIL 25, 1998

NAME	OPTIONS GRANTED(1)(2)	PERCENT OF TOTAL OPTIONS GRANTED TO EMPLOYEES IN FISCAL YEAR(3)	EXERCISE PRICE(2)	EXPIRATION DATE	POTENTIAL REALIZABLE VALUE AT ASSUMED ANNUAL RATES OF STOCK PRICE APPRECIATION FOR OPTION TERM(4) 5%	10%
Daniel P. Spalding..............	150,000	52.7%	$ 15.17	4/28/07	$1,431,049	$3,626,561
Ronald E. Suchodolski............	20,000	7.0%	18.00	12/12/07	226,400	573,600
Richard H. Nagel.................	20,000	7.0%	18.00	12/12/07	226,400	573,600
Donald Ray Pate, Jr..............	--	--	--	--	--	--
Douglas Moskonas.................	20,000	7.0%	18.00	12/12/07	226,400	573,600

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

(2) The option exercise price and number of options will be adjusted as described under "--Replacement of Outstanding U.S. Office Products' Options".

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

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

AGGREGATED OPTION EXERCISES IN FISCAL YEAR ENDED APRIL 25, 1998 AND FICAL YEAR-END 1998 OPTION VALUES

The following table sets forth certain information regarding unexercised options held by the Named Officers at April 25, 1998. All options were granted by U.S. Office Products as options to acquire U.S. Office Products common stock and are expected to be replaced with options to acquire shares of School Specialty Common Stock in connection with the Distribution. See "--Replacement of Outstanding U.S. Office Products' Options". Upon consummation of the School Speciality Distribution, the number of stock options granted to officers, directors and employees of the Company in respect of U.S. Office Products' options and their exercise price will be determined according to the formula set by U.S. Office Products.

AGGREGATED OPTION EXERCISES IN FISCAL YEAR ENDED 1998
AND FISCAL YEAR ENDED 1998 OPTION VALUES

			NUMBER UNEXERCISED OPTIONS HELD AT APRIL 25, 1998(#)(1)		VALUE OF UNEXERCISED IN-THE-MONEY (3) OPTIONS AT FISCAL YEAR END($)(1)(3)(4)	
NAME	SHARES ACQUIRED ON EXERCISE(#)(1)	VALUE REALIZED($)(2)	EXERCISABLE	UNEXERCISABLE	EXERCISABLE	UNEXERCISABLE
Daniel P. Spalding............	--	$ --	--	150,000	$ --	$ 63,938
Ronald E. Suchodolski.........	--	--	--	20,000	--	--
Richard H. Nagel..............	--	--	--	20,000	--	--
Donald Ray Pate, Jr...........	--	--	--	--	--	--
Douglas Moskonas..............	--	--	--	35,000	--	--

(1) The option exercise price and number of options will be adjusted as described under "Replacement of Outstanding U.S. Office Products' Options".

(2) The value of exercised options represents the difference between the exercise price of such options and the closing market price of U.S. Office Products' common stock on the date of exercise.

(3) Options are "in-the-money" if the closing market price of U.S. Office Products Common Stock exceeds the exercise price of the options.

(4) The value of unexercised options represents the difference between the exercise price of such options and $16.875, the closing market price of U.S. Office Products' common stock at April 24, 1998.

REPLACEMENT OF OUTSTANDING U.S. OFFICE PRODUCTS' OPTIONS

All or substantially all vested and unvested options ("U.S. Office Products Options") to acquire the U.S. Office Products' common stock that are held by School Specialty employees on the Distribution Date will be replaced with options ("School Specialty Options") to acquire shares of Company Common Stock. As of the Distribution Date, 492,833 U.S. Office Products Options were held by employees of School Specialty. The exercise price and number of School Specialty Options that will be outstanding after the Distributions will depend on the trading prices of U.S. Office Products' common stock around the time of the

Distributions and the public offering price of the School Specialty Common Stock in the Offering. For those reasons, the number of School Specialty Options into which the U.S. Office Products Options will convert is not yet determinable. The following formulas will be used to adjust the number and exercise price of U.S. Office Products Options. The formulas will adjust solely for the School Specialty Distribution and not for other events such as the repurchase of 37,037,037 shares (including shares that may be issued on exercise of vested and unvested U.S. Office Products Options) in a tender offer (the "Tender Offer") that is part of the Strategic Restructuring Plan. The formulas will not affect when the options vest or when employees can exercise the options.

The exercise price of U.S. Office Products Options will be adjusted by applying the following formulas:

$$\text{Exercise Price (New)} = \text{Exercise Price (Old)} \times \frac{\text{Initial Public Offering Price of Common Stock in this Offering}}{\text{Trading Price of U.S. Office Products' Common Stock Pre-School Speciality Distribution}}$$

The number of U.S. Office Products Options will be adjusted by applying the following formula:

$$\text{Option Shares (New)} = \text{Option Shares (Old)} \times \frac{\text{Trading Price of U.S. Office Products' Common Stock Pre-School Speciality Distribution}}{\text{Initial Public Offering Price of Common Stock in this Offering}}$$

For all optionees, the "Trading Price of U.S. Office Products Common Stock Pre-School Speciality Distribution" will be the average closing price of U.S. Office Products' common stock for the lesser of (a) ten business days preceding the Distributions, or (b) the number of business days falling between the

expiration of the Tender Offer and the completion of the Distributions. The foregoing formula adjustments are intended to preserve for the holder of U.S. Office Products Options the intrinsic value per option, measured as the difference between the market value of one share of U.S. Office Products Common Stock at the time of the School Specialty Distribution and the exercise price of such options. The intrinsic value of the adjusted options will be no greater than the intrinsic value of the options immediately before the Distributions, and the ratio of exercise price to market price will be not less than the ratio immediately before the Distributions.

1998 STOCK INCENTIVE PLAN

The Company expects to adopt the 1998 Stock Incentive Plan (the "Plan"). The purpose of the Plan is to promote the long-term growth and profitability of the Company by providing employees with incentives to improve stockholder value and contribute to the growth and financial success of the Company, and by enabling the Company to attract, retain and reward highly motivated and qualified employees. The maximum percentage of shares of Company Common Stock that may be issued with respect to awards granted under the Plan is 20% of the outstanding Common Stock of the Company determined immediately after the grant of the award. The maximum number of shares that may be issued with respect to awards granted under the Plan to an individual in a calendar year may not exceed 1.2 million shares. The Plan will be administered by the Compensation Committee of the Board

of Directors. All employees of the Company and its subsidiaries, as well as non-employee directors of the Company, are eligible to receive awards under the Plan. The Plan authorizes the Compensation Committee to make awards of stock options, restricted stock, and other stock-based awards. The Compensation Committee will determine the prices (which may not be less than the fair market value on the date of award), vesting schedules, expiration dates and other material conditions under which such awards may be exercised.

Mr. Ledecky will receive a stock option for Company Common Stock from School Specialty, pursuant to the Plan, as of the Distribution Date. The option is intended to compensate Mr. Ledecky for his services to School Specialty as an employee. The option will cover 7.5% of the outstanding Company Common Stock determined as of the Distribution Date, without regard to the Offering. The option will have a per share exercise price equal to the initial public offering price of the Company Common Stock. The estimated value of this option depends upon the initial public offering price of the School Specialty Common Stock. Based on assumed initial public offering price of $15 (which is equal to the mid-point of the price range set forth on the front cover) and an assumed trading volatility index of the School Specialty Common Stock of 35.0%, the estimated value of the option is $2.5 million. It is expected that Mr. Ledecky's option will become fully vested when granted but will not be exercisable until the 12-month anniversary of the Distribution Date. Mr. Ledecky's option from the Company will be exercisable immediately if Mr. Ledecky dies before the options expire or, if and to the extent that, School Specialty accelerates the exercise schedule of substantially all management options. All unexercised portions of the option will expire ten years after its date of grant or, if applicable, as of the date Mr. Ledecky violates his non-competition agreement with School Specialty.

The Company expects that Daniel P. Spalding will also receive an option (the "Spalding Option") pursuant to the Plan for 1.9% of the outstanding Common Stock as of the Distribution Date. The Spalding Option is anticipated to have the same terms as Mr. Ledecky's option, including an exercise price equal to the initial public offering price of the Common Stock. The estimated value of this option depends upon the initial public offering price of the School Specialty Common Stock. Based on assumed initial public offering price of $15 (which is equal to the mid-point of the price range set forth on the front cover) and an assumed trading volatility index of the School Specialty Common Stock of 35.0%, the estimated value of the option is $0.6 million. In addition, management currently expects to recommend option grants to certain executive officers of the Company for approximately 5.6% of the Common

Stock concurrent with or following the Offering and the School Specialty Distribution, also at an exercise price equal to the initial public offering price.

DIRECTOR COMPENSATION AND OTHER ARRANGEMENTS

School Specialty expects to grant non-management directors 15,000 options to purchase School Specialty Common Stock upon their initial election as members of the Board of Directors and thereafter, options to acquire 5,000 shares for each additional year of service. Non-management directors will be paid $1,000 for each meeting attended and will also be reimbursed for all out-of-pocket expenses related to their service as directors.

Jonathan J. Ledecky entered into a services agreement, as amended, (the "Ledecky Services Agreement") with U.S. Office Products on January 13, 1998, to become effective on the Distribution Date and contingent on the consummation of the Distributions. The Ledecky Services Agreement will expire on September 30,

1998 if none of the Distributions has occurred by that date. If the Ledecky Services Agreement becomes effective, it will replace his November 4, 1997 employment agreement with U.S. Office Products. The principal terms of this agreement, as it is expected to be amended, are summarized herein.

The Ledecky Services Agreement governs Mr. Ledecky's continuing obligations to U.S. Office Products. Under the Ledecky Services Agreement, Mr. Ledecky will report to the U.S. Office Products' Board and will provide high-level acquisition negotiation services and strategic business advice. Under the agreement, Mr. Ledecky will remain an employee of U.S. Office Products, at an annual salary of $48,000 through June 30, 2001. As a continuing employee of U.S. Office Products, Mr. Ledecky will also retain his existing U.S. Office Products' options despite his reduction in services to U.S. Office Products. U.S. Office Products can terminate Mr. Ledecky's employment only for "cause" where cause consists of (i) his conviction of or guilty or nolo contendere plea to a felony, (ii) his engaging, despite notice, in conduct demonstrably and materially injurious to U.S. Office Products, or (iii) his violation of the noncompetition agreement as it relates to U.S. Office Products. If Mr. Ledecky resigns or is terminated, he will cease to vest in his U.S. Office Products stock options and will have 90 days to exercise any vested options.

It is expected that the Company will enter into an employment agreement with Mr. Ledecky to implement its assigned portion of the Ledecky Services Agreement. Under the employment agreement, Mr. Ledecky will report to the Board of Directors and senior management of the Company. In such capacity, Mr. Ledecky will provide high-level acquisition negotiation services and strategic business advice. The Company can require Mr. Ledecky's performance of such services, consistent with his other contractual obligations to Consolidation Capital Corporation, U.S. Office Products and the other Spin-Off Companies. As an employee, Mr. Ledecky will also be subject to the generally applicable personnel policies of the Company and will be eligible for such benefit plans in accordance with their terms. The Company will pay Mr. Ledecky an annual salary of $48,000 for up to two years. The Company may terminate Mr. Ledecky's employment with or without "cause" (as defined as in the Ledecky Services Agreement). If without cause, the termination would entitle Mr. Ledecky to severance equal to his salary for the lesser of 12 months or the remainder of the employment term.

The Ledecky Services Agreement provides for non-competition and non-solicitation restrictions that continue for four years after the School Specialty Distribution has been completed. These provisions generally restrict Mr. Ledecky from, among other things, investing in or working for or on behalf of any business selling any products or services in direct competition with U.S. Office Products or the Spin-Off Companies (collectively, the "U.S. Office Products Companies"), within 100 miles of any location where any U.S. Office Products Company conducts the competing business. (For this purpose, "products or services" are those that U.S. Office Products offered on January 13, 1998.) Notwithstanding this prohibition, Mr. Ledecky may serve in a policy making role (but not engage in direct personal competition) with

respect to the following businesses: (i) certain businesses potentially competitive with Aztec Technology Partners, Inc. if those businesses (A) are acquired by electrical contracting and services businesses, (B) had revenues of no more than $15 million in the prior year and no more than 30% of the revenues of the acquiring business, and (C) have their principal place of business in the same metropolitan area as that of the acquiring business; (ii) businesses selling, supplying, or distributing janitorial or sanitary products or services; (iii) businesses managing or servicing equipment (other than computers); (iv) businesses providing internet services; or (v) UniCapital Corporation's leasing

businesses (which include equipment leasing). The Ledecky Services Agreement prohibits Mr. Ledecky from trying to hire away managerial employees of the U.S. Office Products Companies or from calling upon customers of the U.S. Office Products Companies to solicit or sell products or services in direct competition with the U.S. Office Products Companies. Mr. Ledecky also may not hire away for Consolidation Capital Corporation any person then or in the preceding one year employed by the U.S. Office Products Companies. U.S. Office Products will assign to the Company the ability to enforce the non-competition provisions described above as to its own business, which will then constitute part of Mr. Ledecky's employment agreement with the Company.

EMPLOYMENT CONTRACTS AND RELATED MATTERS

School Specialty has entered into employment agreements with the following three of its Named Officers that will continue after the School Specialty Distribution: Daniel P. Spalding (Chairman and Chief Executive Officer), Donald Ray Pate, Jr. (Executive Vice President and President of Re-Print), and Richard H. Nagel (Executive Vice President and President of Sax Arts & Crafts). After the School Specialty Distribution, the Company intends to enter into an employment agreement with David J. Vander Zanden, who became President and Chief Operating Officer of the Company in March 1998.

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

Donald Ray Pate, Jr., serves as President of Re-Print and entered into an employment contract with Re-Print on July 26, 1996 to serve as its President. The contract runs for four years but provides for two automatic one-year extensions unless Re-Print gives 60 days written notice of its intent not to renew. Mr. Pate's annual base salary is $125,000, and he participates in an executive compensation program developed by U.S. Office Products. Following the termination of his employment for any reason, Mr. Pate

has agreed not to compete with Re-Print for the longer of two years or until the end of the contractual term. If Mr. Pate is terminated without cause, he is entitled to receive his base salary for three months or until the end of the

initial contractual term, whichever period is greater.

Richard H. Nagel, President of Sax Arts & Crafts, entered into a four-year employment contract with Sax Arts & Crafts on June 27, 1997 to serve as its President. Mr. Nagel's annual base salary is at least $125,000, and he participates in School Specialty's management bonus program. Following the termination of his employment for any reason, Mr. Nagel has agreed not to compete with Sax Arts & Crafts for one year. If Mr. Nagel is terminated without cause, he is entitled to receive his base salary for one year or until the end of the contractual term, whichever period is lesser.

David J. Vander Zanden became President and Chief Operating Officer in March 1998. After the School Specialty Distribution, School Specialty expects to enter into an employment contract with Mr. Vander Zanden with an initial term of two years, with automatic two-year extensions unless School Specialty or Mr. Vander Zanden gives 90 days written notice of either party's intent not to renew. School Specialty expects that Mr. Vander Zanden's employment contract will provide for a base salary of $225,000 and participation in an incentive bonus plan based upon the attainment of profit and revenue objectives. School Specialty also expects that Mr. Vander Zanden's employment contract will contain a covenant not to compete upon termination of the agreement, and provide Mr. Vander Zanden the right to terminate the agreement upon a change of control in School Specialty, with change of control to be defined in the agreement. School Specialty also expects to grant options to Mr. Vander Zanden on or shortly after the Distribution.

COMPENSATION COMMITTEE INTERLOCKS AND INSIDER PARTICIPATION

The School Specialty Board will create a Compensation Committee, immediately following the Offering. The Compensation Committee will be charged with determining the compensation of all executive officers. Until the Compensation Committee of the School Specialty Board is created, decisions regarding compensation of the executive officers will be made by the School Specialty Board. No member of the School Specialty Board has ever been an officer of School Specialty or any of its subsidiaries, except that Mr. Spalding is the Chief Executive Officer of School Specialty. In addition, Mr. Ledecky was the Chief Executive Officer of U.S. Office Products until November 5, 1997 and will be the Chairman of U.S. Office Products until the Distribution Date.

CERTAIN TRANSACTIONS

On April 29, 1996, U.S. Office Products acquired Old School in a business combination accounted for under the pooling-of-interests method in which 2,307,693 shares of U.S. Office Products Common Stock were issued as consideration. Current officers of School Specialty who received shares of U.S. Office Products Common Stock in the transaction include Daniel P. Spalding (309,766 shares, and an additional 30,018 through an IRA for his benefit), Michael J. Killoren (27,018 shares), and Donald J. Noskowiak (27,018 shares). In addition, John S. Spalding (Daniel P. Spalding's father) received 661 shares and an additional 60,034 through an IRA for his benefit, the Patricia M. Spalding Revocable Trust received 70,923 shares, Joanne Lee Killoren received 60,304 shares, Donald Killoren (Michael J. Killoren's father) received 60,778 shares and Leo C. McKenna received 278,005 shares. The other parties to the foregoing transactions had no relationship to the Company or U.S. Office Products Company at the time such transactions were entered into, and accordingly, the Company believes that these transactions were as favorable as could be negotiated with third parties.

U.S. Office Products acquired Re-Print on July 26, 1996 in a business

combination accounted for under the pooling-of-interests method in which it issued 1,950,000 shares of U.S. Office Products Common Stock as consideration. In that transaction, Donald Ray Pate, Jr., President of Re-Print, received 1,076,028 shares of U.S. Office Products Common Stock for his interest in Re-Print. Other shareholders related to Mr. Pate who received shares of U.S. Office Products Common Stock in the merger were Celita Pate Carmichael (30,240 shares), Phillip S. Pate (85,351 shares), Richard K. Pate (73,921 shares), and Mary K. Pate (116,505 shares). The other parties to the foregoing transactions had no relationship to the Company or U.S. Office Products Company at the time such transactions were entered into, and accordingly, the Company believes that these transactions were as favorable as could be negotiated with third parties.

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

School Specialty's main office and warehouse facility, a 120,000 square foot building located in Appleton, Wisconsin, is leased from Bluemound Corporation. John S. Spalding, a former member of the Board of Old School and the father of Daniel P. Spalding, Chairman of the Board and Chief Executive Officer of School Specialty, holds a one-third stake in Bluemound. Donald Killoren, father of Michael J. Killoren, an officer of School Specialty, also holds a one-third stake in Bluemound. The lease provides for annual payments of $196,000 through December 31, 2001. The Company believes that this transaction was as favorable as could be negotiated with third parties.

For a discussion of matters related to the spin-off of the Company from U.S. Office Products, see "The Spin-Off From U.S. Office Products".

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

PRINCIPAL STOCKHOLDERS

The following table sets forth the number and percentage of School Specialty Common Stock beneficially owned by the following persons, after giving effect to the School Specialty Distribution, the Offering and the sale of 250,000 shares of School Specialty Common Stock to Messrs. Spalding, Vander Zanden and Pate, based on their beneficial ownership of U.S. Office Products common stock on April 1, 1998 (assuming that each person (other than Mr. Pate) tendered his pro rata share of the 37,037,037 shares of U.S. Office Products common stock tendered for as part of its Strategic Restructuring Plan and that the Underwriters' overallotment option is not exercised): (i) all persons known by School Specialty to own beneficially more than 5% of U.S. Office Products common stock, (ii) each director and each Named Officer who is a stockholder, and (iii) all directors and executive officers as a group. All persons listed below have sole voting and investment power with respect to their shares, unless otherwise indicated. Except as otherwise indicated, the business address of each of the following is 1000 North Bluemound Drive, Appleton, Wisconsin 54914.

	PRIOR TO THE OFFERING	AFTER THE OFFERING

NAME AND ADDRESS OF BENEFICIAL OWNER	NUMBER OF SHARES OWNED	PERCENT OF OUTSTANDING SHARES	NUMBER OF SHARES OWNED	PERCENT OF OUTSTANDING SHARES
Daniel P. Spalding	17,248(1)	*	150,581	1.0%
Ronald Suchodolski				
Jonathan J. Ledecky	209,089(2)	1.7%	209,089	1.4
Richard H. Nagel				
Donald Ray Pate, Jr	92,657(3)	*	159,324	1.1
Douglas Moskonas	646(1)	*	646	*
Leo C. McKenna	1,127	*	1,127	*
All current executive officers and directors as a group (13 persons)	323,444	2.6	573,444	2.5
5% STOCKHOLDERS				
FMR Corp.(4) 82 Devonshire Street Boston, MA 02109	1,356,629	11.0	1,356,629	9.2
Massachusetts Financial Services Company(4) 500 Boylston Street Boston, MA 02116	711,526	5.8	111,526	4.9

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* Less than 1%.

(1) Does not include shares underlying U.S. Office Products Options which are exercisable within 60 days following the School Specialty Distribution. The number of such shares will be adjusted as described under "Management--Replacement of U.S. Office Products' Options".

(2) Does not include shares underlying Mr. Ledecky's options described under "Management--Director Compensation and Other Arrangements", none of which are exercisable within the next twelve months.

(3) Mr. Pate has entered into hedging arrangements that place a ceiling and a floor on the price of certain of his shares of U.S. Office Products common stock.

(4) Based upon a Schedule 13G for U.S. Office Products filed with the Securities and Exchange Commission.

DESCRIPTION OF SCHOOL SPECIALTY CAPITAL STOCK

GENERAL

Set forth below is a summary of the terms of School Specialty's Capital Stock. At the time of the School Specialty Distribution, the Company's authorized capital stock will consist of 150,000,000 shares of School Specialty Common Stock, par value $.001 per share, and 1,000,000 shares of preferred stock, par value $.001 per share (the "Preferred Stock"). At the time of the School Specialty Distribution, the Company is expected to have outstanding approximately 12,299,593 shares of School Specialty Common Stock and no shares of Preferred Stock.

COMMON STOCK

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

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

PREFERRED STOCK

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

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

STATUTORY BUSINESS COMBINATION PROVISION

School Specialty is subject to the provisions of Section 203 of the Delaware General Corporation Law ("Section 203"). Section 203 provides, with certain exceptions, that a Delaware corporation may not engage in any of a broad range of business combinations with a person or an affiliate, or associate of such person, who is an "interested stockholder" for a period of three years from the date that such person became an interested stockholder unless: (i) the transaction resulting in a person becoming an interested stockholder, or the business combination, is approved by the board of directors of the corporation before the person becomes an interested stockholder; (ii) the interested stockholder acquired 85% or more of the outstanding voting stock of the corporation in the same transaction that makes such person an interested stockholder (excluding shares owned by persons who are both officers and directors of the corporation, and shares held by certain employee stock ownership plans); or (iii) on or after the date the person becomes an interested stockholder, the business combination is approved by the corporation's board of directors and by the holders of at least 66 2/3% of the corporation's outstanding voting stock at an annual or special meeting, excluding shares owned

by the interested stockholder. Under Section 203, an "interested stockholder" is defined as any person who is: (i) the owner of 15% or more of the outstanding voting stock of the corporation; or (ii) an affiliate or associate of the corporation if such affiliate or associate was the owner of 15% or more of the outstanding voting stock of the corporation at any time within the three-year period immediately prior to the date on which it is sought to be determined whether such person is an interested stockholder.

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

PROVISIONS OF SCHOOL SPECIALTY'S CERTIFICATE OF INCORPORATION AND BYLAWS AFFECTING CHANGE OF CONTROL

The Board of Directors of School Specialty is contemplating adoption of certain amendments to the Certificate of Incorporation or Bylaws that may, if adopted, provide the School Specialty Board with more negotiating leverage by delaying or making more difficult unsolicited acquisitions or changes of control of School Specialty. It is believed that such provisions will enable School Specialty to develop its business in a manner that will foster its long-term growth without disruption caused by the threat of a takeover not deemed by the School Specialty Board to be in the best interests of School Specialty and its stockholders. Such provisions could have the effect of discouraging third parties from making proposals involving an unsolicited acquisition or change of control of School Specialty, although such proposals, if made, might be considered desirable by a majority of School Specialty's stockholders. Such provisions may also have the effect of making it more difficult for third parties to cause the replacement of the management of School Specialty without concurrence of the School Specialty Board. These provisions include: (i) the availability of capital stock for issuance from time to time at the discretion of the School Specialty Board (see "--Preferred Stock" above); (ii) the classification of the School Specialty Board into three classes, each of which serves for a term of three years; (iii) prohibition on stockholders acting by written consent in lieu of a meeting; (iv) limitation on stockholders calling a special meeting of stockholders; (v) requirements for advance notice for raising business or making nominations at stockholders' meetings; and (vi) the requirement of a supermajority vote to amend School Specialty's Bylaws.

CLASSIFIED BOARD

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

NO STOCKHOLDER ACTION BY WRITTEN CONSENT; SPECIAL MEETINGS

The Certificate of Incorporation and Bylaws may provide that stockholder action can be taken only at an annual or special meeting and cannot be taken by written consent in lieu of a meeting. The Certificate of Incorporation and Bylaws also provide that special meetings of the stockholder can be called only by the Chairman of the Board, the Chief Executive Officer, a vote of the majority of the entire board, or by holders of at least 33 1/3% of the outstanding shares of School Specialty stock entitled to vote generally for the election of directors.

ADVANCE NOTICE FOR RAISING BUSINESS OR MAKING NOMINATIONS AT MEETINGS

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

AMENDMENT OF BYLAWS

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

RIGHTS PLAN

School Specialty may consider adoption of a shareholder rights plan or "poison pill." As with the Certificate of Incorporation and Bylaw provisions discussed above, if such a plan is adopted, it could render more difficult or discourage an attempt to obtain control of School Specialty. However, such a plan might also provide the School Specialty Board with more negotiating leverage by delaying or making more difficult unsolicited acquisitions or changes of control of School Specialty.

LIMITATION ON DIRECTORS' LIABILITIES

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

TRANSFER AGENT AND REGISTRAR

The Transfer Agent and Registrar for the School Specialty Common Stock will be American Stock Transfer & Trust Company.

EXPERTS

The consolidated financial statements of School Specialty as of April 30, 1996 and April 26, 1997, for the four months ended April 30, 1996, and for the year ended April 30, 1997, included in this Prospectus, have been so included in reliance on the January 13, 1998 (except for Note 1 and the last paragraph of Note 3, which are as of May 14, 1998) report of Price Waterhouse LLP, independent accountants, given on the authority of said firm as experts in auditing and accounting.

The consolidated financial statements of School Specialty for the years ended December 31, 1995 and December 31, 1994 included in this Prospectus, except as they relate to The Re-Print Corporation for the years ended December 31, 1995 and December 31, 1994, have been audited by Ernst & Young, independent accountants, and insofar as they relate to The Re-Print Corporation for such periods, by BDO Seidman, LLP, independent accountants, whose report dated February 8, 1996 thereon appears herein. Such consolidated financial statements have been so included in reliance on the reports of such independent accountants given on the authority of such firms as experts in auditing and accounting.

The consolidated financial statements of American Academic Suppliers Holding Corporation and Subsidiary as of December 31, 1995 and December 31, 1996 and for the years then ended included in this Prospectus have been so included in reliance on the February 24, 1997 report of Altschuler, Melvoin and Glasser LLP, independent accountants, given on the authority of said firm as experts in auditing and accounting.

The consolidated financial statements of Sax Arts and Crafts, Inc. as of December 16, 1995 and December 25, 1996, and for the three years in the period ended December 25, 1996, included in this Prospectus, have been so included in reliance on the February 3, 1998 report of Price Waterhouse LLP, independent accountants, given on the authority of said firm as experts in auditing and accounting.

VALIDITY OF SHARES

The validity of shares of School Specialty Common Stock offered hereby will be passed upon on behalf of School Specialty and U.S. Office Products by Wilmer, Cutler & Pickering, Washington, D.C. and on behalf of the Underwriters by Sullivan & Cromwell, Washington, D.C.

ADDITIONAL INFORMATION

School Specialty has filed with the SEC a Registration Statement on Form S-1 (including exhibits, schedules, and amendments thereto, the "School Specialty Form S-1") pursuant to the Securities Act of 1933, as amended (the "Securities Act"), with respect to School Specialty Common Stock. This Prospectus, while forming a part of the School Specialty Form S-1, does not contain all of the information set forth in the School Specialty Form S-1. Reference is hereby made to the School Specialty Form S-1 for further information with respect to School Specialty. Statements contained herein concerning the provisions of documents filed as exhibits to the School Specialty Form S-1 are necessarily summaries of such documents, and each such statement is qualified in its entirety by reference to the copy of the applicable document filed with the SEC.

The School Specialty Form S-1 is available for inspection and copying at the

public reference facilities maintained by the SEC at Room 1024, 450 Fifth Street, N.W., Washington, D.C. 20549, as well as the Regional Offices of the SEC at Northwestern Atrium Center, 500 West Madison Street, Suite 1400, Chicago, Illinois 60661 and 7 World Trade Center, Suite 1300, New York, New York 10048. Copies of such information can be obtained by mail from the Public Reference Branch of the SEC at 450 Fifth Street, N.W., Washington, D.C. 20549 at prescribed rates or on the Internet at http://www.sec.gov.

Following the School Specialty Distribution, School Specialty will be subject to the informational requirements of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), and, in accordance therewith, will file reports, proxy statements and other information with the SEC that will be

available for inspection and copying at the SEC's public reference facilities referred to above. Copies of such material can be obtained by mail at prescribed rates by writing to the Public Reference Branch of the SEC at the address referred to above.

School Specialty intends to furnish its stockholders annual reports containing financial statements audited by its independent auditor. School Specialty does not intend to furnish its stockholders quarterly reports.

Holders of School Specialty Common Stock having inquiries related to their investment in School Specialty should contact Daniel P. Spalding, Chief Executive Officer, at 1000 North Bluemound Drive, P.O. Box 1579, Appleton, Wisconsin 54914, telephone (920) 734-2756.

Childcraft Education Corp.-Registered Trademark- is a trademark of Childcraft Education Corp. School Specialty-Registered Trademark- and Education Access-Registered Trademark- are trademarks of School Specialty. Gresswell is a common law trademark of School Specialty.

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REPORT OF INDEPENDENT ACCOUNTANTS

TO THE BOARD OF DIRECTORS
OF SCHOOL SPECIALTY, INC.

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

PRICE WATERHOUSE LLP

Minneapolis, Minnesota
January 13, 1998, except for Note 1 and the last paragraph of Note 3, which are as of May 14, 1998

REPORT OF INDEPENDENT AUDITORS

BOARD OF DIRECTORS
SCHOOL SPECIALTY, INC.

We have audited the accompanying consolidated statements of operations, consolidated statement of stockholder's (deficit) equity and cash flows of School Specialty, Inc. (the Company) for the years ended December 31, 1995 and 1994. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits. We did not audit the financial statements of Re-Print Corporation, a wholly owned subsidiary, which statements reflect total revenues of $30,798,000 and $24,140,000 for the years ended December 31, 1995 and 1994, respectively. Those statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to data included for Re-Print Corporation, is based solely on the report of the other auditors.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, based on our audits and report of other auditors, the financial statements referred to above present fairly, in all material respects, the results of the Company's operations and its cash flows for the years December 31, 1995 and 1994, in conformity with generally accepted accounting principles.

ERNST & YOUNG LLP
Milwaukee, Wisconsin
February 2, 1996

REPORT OF INDEPENDENT AUDITORS

Board of Directors
The Re-Print Corporation
Birmingham, Alabama

We have audited the accompanying balance sheets of The Re-Print Corporation as of December 31, 1995 and 1994, and the related statements of income, stockholders' equity, and cash flows for the years then ended (not presented separately herein). These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The Re-Print Corporation at December 31, 1995 and 1994, and the results of its operations and its cash flows for the years then ended in conformity with generally accepted accounting principles.

BDO Seidman, LLP

Atlanta, Georgia

February 8, 1996

SCHOOL SPECIALTY, INC.

CONSOLIDATED BALANCE SHEET

(IN THOUSANDS)

	APRIL 30, 1996	APRIL 26, 1997	JANUARY 24, 1998
			(UNAUDITED)
ASSETS			
Current assets:			
Cash and cash equivalents	$ 46	$	$
Accounts receivable, less allowance for doubtful accounts of $202, $471 and $724, respectively	13,129	17,232	41,530
Inventories	20,276	24,461	32,946
Prepaid expenses and other current assets	5,556	10,331	8,997
Total current assets	39,007	52,024	83,473
Property and equipment, net	7,647	14,478	20,489
Intangible assets, net	7,142	20,824	94,651
Other assets	777	359	2,594
Total assets	$ 54,573	$ 87,685	$ 201,207
LIABILITIES AND STOCKHOLDER'S (DEFICIT) EQUITY			
Current liabilities:			
Short-term debt	$ 25,887	$ 262	$ 272
Short-term payable to U.S. Office Products		26,692	16,873
Accounts payable	11,933	9,091	11,951
Accrued compensation	785	860	5,502
Other accrued liabilities	4,065	659	5,262
Total current liabilities	42,670	37,564	39,860
Long-term debt	15,031	566	385
Long-term payable to U.S. Office Products		33,226	62,470
Deferred income taxes	1,139		
Total liabilities	58,840	71,356	102,715
Commitments and contingencies			
Stockholder's (deficit) equity:			
Divisional equity	7,487	19,985	93,313
Retained (deficit) earnings	(11,754)	(3,656)	5,179
Total stockholder's (deficit) equity	(4,267)	16,329	98,492
Total liabilities and stockholder's (deficit) equity	$ 54,573	$ 87,685	$ 201,207

See accompanying notes to consolidated financial statements.

SCHOOL SPECIALTY, INC.

CONSOLIDATED STATEMENT OF OPERATIONS

(IN THOUSANDS)

FOR THE	FOR THE FOUR	FOR THE FISCAL	FOR THE NINE

	YEAR ENDED		MONTHS ENDED	YEAR ENDED	MONTHS ENDED	
	DECEMBER 31, 1994	DECEMBER 31, 1995	APRIL 30, 1996	APRIL 26, 1997	JANUARY 25, 1997	JANUARY 24, 1998
					(UNAUDITED)	
Revenues	$ 119,510	$ 150,482	$ 28,616	$ 191,746	$ 159,977	$ 247,880
Cost of revenues	87,750	105,757	20,201	136,577	114,380	176,501
Gross profit	31,760	44,725	8,415	55,169	45,597	71,379
Selling, general and administrative expenses	27,281	39,869	10,307	43,462	33,396	50,999
Non-recurring acquisition costs			1,122	1,792	1,792	
Restructuring costs		2,532		194		
Operating income (loss)	4,479	2,324	(3,014)	9,721	10,409	20,380
Other (income) expense:						
Interest expense	3,007	5,536	1,461	4,197	3,358	4,100
Interest income			(6)		(101)	(109)
Other	(86)	(18)	67	(196)	(204)	441
Income (loss) before provision for (benefit from) income taxes	1,558	(3,194)	(4,536)	5,720	7,356	15,948
Provision for (benefit from) income taxes	218	173	139	(2,412)	3,750	7,113
Net income (loss)	$ 1,340	$ (3,367)	$ (4,675)	$ 8,132	$ 3,606	$ 8,835
Weighted average shares outstanding:						
Basic	5,062	6,562	8,611	10,003	9,553	12,751
Diluted	5,078	6,669	8,789	10,196	9,758	13,020
Net income (loss) per share:						
Basic	$ 0.26	$ (0.51)	$ (0.54)	$ 0.81	$ 0.38	$ 0.69
Diluted	$ 0.26	$ (0.50)	$ (0.53)	$ 0.80	$ 0.37	$ 0.68

See accompanying notes to consolidated financial statements.

SCHOOL SPECIALTY, INC.

CONSOLIDATED STATEMENT OF STOCKHOLDER'S (DEFICIT) EQUITY

(IN THOUSANDS)

	DIVISIONAL EQUITY	RETAINED (DEFICIT) EARNINGS	TOTAL STOCKHOLDER'S (DEFICIT) EQUITY
Balance at December 31, 1993	$ 5,247	$ (4,780)	$ 467
Issuance of Pooled Company common stock for cash	80		80
Cash dividends declared at Pooled Companies		(60)	(60)
Net income		1,340	1,340
Balance at December 31, 1994	5,327	(3,500)	1,827
Transactions of Pooled Companies:			
Issuance of warrants	672		672
Issuance of Pooled Company common stock for cash	500		500
Repurchase of treasury stock	(92)		(92)
Cash dividends declared and paid		(160)	(160)
Net loss		(3,367)	(3,367)
Balance at December 31, 1995	6,407	(7,027)	(620)
Transactions of Pooled Companies:			
Exercise of warrants	1,080		1,080
Cash dividends declared and paid		(52)	(52)
Net loss		(4,675)	(4,675)
Balance at April 30, 1996	7,487	(11,754)	(4,267)
Transactions of Pooled Companies:			
Exercise of warrants and stock options	1,979		1,979
Retirement of treasury stock	34	(34)	

Issuances of U.S. Office Products Company common stock in conjunction with acquisitions	10,485		10,485
Net income		8,132	8,132
Balance at April 26, 1997	19,985	(3,656)	16,329
Unaudited data:			
Issuances of U.S. Office Products Company common stock in conjunction with acquisitions	3,566		3,566
Capital contribution by U.S. Office Products	69,762		69,762
Net income		8,835	8,835
Balance at January 24, 1998 (unaudited)	$ 93,313	$ 5,179	$ 98,492

See accompanying notes to consolidated financial statements.

SCHOOL SPECIALTY, INC.

CONSOLIDATED STATEMENT OF CASH FLOWS

(IN THOUSANDS)

	FOR THE YEAR ENDED		FOR THE FOUR MONTHS ENDED	FOR THE FISCAL YEAR ENDED	FOR THE NINE MONTHS ENDED
	DECEMBER 31, 1994	DECEMBER 31, 1995	APRIL 30, 1996	APRIL 26, 1997	JANUARY 25, 1997
					(UNAUDITED)
Cash flows from operating activities:					
Net income (loss)	$ 1,340	$ (3,367)	$ (4,675)	$ 8,132	$ 3,606
Adjustment to reconcile net income (loss) to net cash provided by (used in) operating activities:					
Depreciation and amortization expense	1,719	2,927	674	2,106	1,570
Non-recurring acquisition costs			1,122	1,792	1,792
Other	231	277	118	115	73
Changes in current assets and liabilities (net of assets acquired and liabilities assumed in business combinations accounted for under the purchase method):					
Accounts receivable	(2,226)	2,666	3,727	1,277	(629)
Inventory	4,365	(2,523)	(4,376)	2,737	9,816
Prepaid expenses and other current assets	(989)	(338)	(443)	(2,361)	(1,509)
Accounts payable	(4,367)	2,642	3,459	(6,969)	(12,376)
Accrued liabilities	(341)	2,544	(784)	(5,911)	1,866
Net cash provided by (used in) operating activities	(268)	4,828	(1,178)	918	4,209
Cash flows from investing activities:					
Cash paid in acquisitions, net of cash received	(2,106)	(5,389)		(7,734)	(7,609)
Payments of non-recurring acquisition costs			(1,122)	(1,792)	(1,725)
Additions to property and equipment	(630)	(881)	(120)	(7,216)	(5,317)
Other	(120)	178	414		
Net cash used in investing activities	(2,856)	(6,092)	(828)	(16,742)	(14,651)
Cash flows from financing activities:					
Proceeds from issuance of common stock	80	500	1,080	1,979	1,979
Proceeds from issuance of long-term debt	1,850	1,715		750	1,160
Payments of long-term debt	(2,023)	(1,488)	(194)	(16,962)	(17,164)
Proceeds from (payments of) short-term debt, net	3,295	655	1,263	(29,908)	(29,775)
Advances from U.S. Office Products Company				59,919	55,029
Capital contribution by U.S. Office Products					
Payments of dividends at Pooled Companies		(134)	(138)		
Purchase of treasury stock at Pooled Company		(92)			
Net cash provided by financing activities	3,202	1,156	2,011	15,778	11,229
Net increase (decrease) in cash and cash equivalents	78	(108)	5	(46)	787
Cash and cash equivalents at beginning of					

period	71	149	41	46	46
Cash and cash equivalents at end of period	$ 149	$ 41	$ 46	$	$ 833
Supplemental disclosures of cash flow information:					
Interest paid	$ 2,850	$ 5,564	$ 1,461	$ 456	$ 630
Income taxes paid (refunded)	$ 236	$ 9	$ (3)	$ (132)	$ (139)

	JANUARY 24, 1998
Cash flows from operating activities:	
Net income (loss)	$ 8,835
Adjustment to reconcile net income (loss) to net cash provided by (used in) operating activities:	
Depreciation and amortization expense	3,382
Non-recurring acquisition costs	
Other	43
Changes in current assets and liabilities (net of assets acquired and liabilities assumed in business combinations accounted for under the purchase method):	
Accounts receivable	(6,450)
Inventory	9,590
Prepaid expenses and other current assets	3,844
Accounts payable	(6,593)
Accrued liabilities	2,741
Net cash provided by (used in) operating activities	15,392
Cash flows from investing activities:	
Cash paid in acquisitions, net of cash received	(92,076)
Payments of non-recurring acquisition costs	
Additions to property and equipment	(4,095)
Other	(366)
Net cash used in investing activities	(96,537)
Cash flows from financing activities:	
Proceeds from issuance of common stock	
Proceeds from issuance of long-term debt	
Payments of long-term debt	(6,200)
Proceeds from (payments of) short-term debt, net	(1,841)
Advances from U.S. Office Products Company	19,424
Capital contribution by U.S. Office Products	69,762
Payments of dividends at Pooled Companies	
Purchase of treasury stock at Pooled Company	
Net cash provided by financing activities	81,145
Net increase (decrease) in cash and cash equivalents	
Cash and cash equivalents at beginning of period	
Cash and cash equivalents at end of period	$
Supplemental disclosures of cash flow information:	
Interest paid	$ 27
Income taxes paid (refunded)	$

SCHOOL SPECIALTY, INC.

CONSOLIDATED STATEMENT OF CASH FLOWS (CONTINUED)

(IN THOUSANDS)

The Company issued common stock and cash in connection with certain business combinations accounted for under the purchase method in the years ended December 31, 1994 and 1995, the fiscal year ended April 26, 1997, and the nine months ended January 25, 1997 and January 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 YEAR ENDED		FOR THE FOUR MONTHS ENDED	FOR THE FISCAL YEAR ENDED	FOR THE NINE MONTHS ENDED
	DECEMBER 31, 1994	DECEMBER 31, 1995	APRIL 30, 1996	APRIL 26, 1997	JANUARY 25, 1997
					(UNAUDITED)
Accounts receivable........................	$ 8,112	$ 1,589	$	$ 5,381	$ 5,381
Inventories................................	9,743	1,823		6,922	6,922
Prepaid expenses and other current assets...	823	502		2,371	2,371
Property and equipment.....................	2,211	4,536		1,155	1,155
Intangible assets..........................		3,268		14,248	13,994
Other assets...............................	1,488	156		29	29
Short-term debt............................	(6,785)	(191)		(4,283)	(4,283)
Accounts payable...........................	(6,447)	(274)		(4,012)	(4,012)
Accrued liabilities........................	(1,661)	(225)		(1,846)	(1,717)
Long-term debt.............................	(5,378)	(5,795)		(1,746)	(1,746)
Net assets acquired..........	$ 2,106	$ 5,389	$	$ 18,219	$ 18,094
The acquisitions were funded as follows:					
U.S. Office Products common stock..........	$	$	$	$ 10,485	$ 10,485
Cash paid, net of cash acquired............	2,106	5,389		7,734	7,609
Total........................	$ 2,106	$ 5,389	$	$ 18,219	$ 18,094

	JANUARY 24, 1998
Accounts receivable........................	$ 17,848
Inventories................................	18,075
Prepaid expenses and other current assets...	2,431
Property and equipment.....................	6,667
Intangible assets..........................	74,741
Other assets...............................	210
Short-term debt............................	(1,850)
Accounts payable...........................	(9,410)
Accrued liabilities........................	(7,050)
Long-term debt.............................	(6,020)
Net assets acquired..........	$ 95,642
The acquisitions were funded as follows:	
U.S. Office Products common stock..........	$ 3,566
Cash paid, net of cash acquired............	92,076
Total........................	$ 95,642

See accompanying notes to consolidated financial statements.

NOTE 1--BACKGROUND

School Specialty, Inc. (the "Company") is a Delaware corporation which is a wholly-owned subsidiary of U.S. Office Products Company ("U.S. Office Products"). On January 13, 1998, U.S. Office Products announced its intention to spin-off its Educational Supplies and Products Division (the "Education Division") as an independent publicly owned company. This transaction is expected to be effected through the distribution of shares of the Company to U.S. Office Products' shareholders effective on or about June 9, 1998 (the "Distribution"). Prior to the Distribution, U.S. Office Products plans to contribute its equity interests in certain wholly-owned subsidiaries associated with the Education Division to the Company. U.S. Office Products and the Company will enter into a number of agreements to facilitate the Distribution and the transition of the Company to an independent business enterprise. Additionally,

concurrently with the Distribution, the Company anticipates selling 2.1 million shares (2.4 million shares if the over-allotment is sold) in an initial public offering ("IPO").

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

NOTE 2--BASIS OF PRESENTATION

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

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

NOTE 3--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

USE OF ESTIMATES

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

CHANGE IN FISCAL YEAR

Prior to their respective dates of acquisition by U.S. Office Products, the Pooled Companies reported results on years ending on December 31. Upon acquisition by U.S. Office Products and effective for the fiscal year ended

April 26, 1997 ("fiscal 1997"), the Pooled Companies changed their year-ends from December 31 to conform to U.S. Office Products' fiscal year, which ends on the last Saturday in April. A four-month fiscal transition period from January 1, 1996 through April 30, 1996 has been presented for the Company to conform its fiscal year-end.

PRINCIPLES OF CONSOLIDATION

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

CASH AND CASH EQUIVALENTS

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

CONCENTRATION OF CREDIT RISK

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

INVENTORIES

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

PROPERTY AND EQUIPMENT

Property and equipment is stated at cost. Additions and improvements are capitalized. Maintenance and repairs are expensed as incurred. Depreciation of property and equipment is calculated using the straight-line method over the estimated useful lives of the respective assets. The estimated useful lives range from 25 to 40 years for buildings and its components and 3 to 15 years for furniture, fixtures and equipment. Property and equipment leased under capital leases is being amortized over the lesser of its useful life or its lease terms.

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

Intangible assets consist primarily of goodwill, which represents the excess of cost over the fair value of assets acquired in business combinations accounted for under the purchase method and non-compete agreements. Substantially all goodwill is amortized on a straight line basis over an estimated useful life of 40 years. Management periodically evaluates the recoverability of goodwill, which would be adjusted for a permanent decline in value, if any, by comparing anticipated undiscounted future cash flows from operations to net book value. Other intangible assets are being amortized over their estimated useful lives ranging from one to four years.

FAIR VALUE OF FINANCIAL INSTRUMENTS

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

INCOME TAXES

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

REVENUE RECOGNITION

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

COST OF REVENUES

Vendor rebates are recognized on an accrual basis in the period earned and are recorded as a reduction to cost of revenues. Delivery and occupancy costs are included in cost of revenues.

ADVERTISING COSTS

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

DEFERRED CATALOG COSTS

Deferred catalog costs are amortized in amounts proportionate to revenues over the life of the catalog, which is typically one to two years. Amortization expense related to deferred catalog costs is

included in the consolidated statement of income as a component of selling, general and administrative expenses. Such amortization expense for the year ended December 31, 1994 and 1995, the four months ended April 30, 1996, the fiscal year ended April 26, 1997 and the nine months ended January 24, 1998 was $3,755, $4,395, $832, $3,621 and $4,646 (unaudited), respectively.

INTERNALLY DEVELOPED SOFTWARE

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

NON-RECURRING ACQUISITION COSTS

Non-recurring acquisition costs represent acquisition costs incurred by the Company in business combinations accounted for under the pooling-of-interests

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

RESTRUCTURING COSTS

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

NET INCOME PER SHARE

Net income per share is calculated in accordance with the Statement of Financial Accounting Standards ("SFAS") No. 128 "Earnings Per Share," which establishes standards for computing and presenting earnings per share ("EPS"). SFAS No. 128 requires dual presentation of basic and diluted EPS on the face of the income statement. Basic EPS excludes dilution and is computed by dividing income available to common shareholders by the weighted-average number of shares outstanding for the period. Diluted EPS reflects the potential dilution that could occur if securities or other contracts to issue common stock were exercised or converted into common stock. The difference between the weighted-average number of common shares used for the calculation of basic EPS and the weighted average number of shares of common shares used for the diluted EPS is comprised of the dilutive effect of outstanding common stock options. However, a portion of the Company's employee stock options outstanding during the periods presented were not included in the computation of diluted EPS as they were anti-dilutive.

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

In June 1997, the FASB issued SFAS No. 130, "Reporting Comprehensive Income." SFAS No. 130 establishes standards for reporting and display of comprehensive income and its components (revenues, expenses, gains, and losses) in a full set of general-purpose financial statements. SFAS No. 130 requires that all items that are required to be recognized under accounting standards as components of comprehensive income be reported in a financial statement that is displayed with the same prominence as other financial statements. SFAS No. 130 is effective for fiscal years beginning after December 15, 1997. Reclassification of financial statements for earlier periods provided for comparative purposes is required. The Company intends to adopt SFAS No. 130 in fiscal 1999.

UNAUDITED INTERIM FINANCIAL DATA

In the opinion of management, the Company has made all adjustments, consisting only of normal recurring accruals, necessary for a fair presentation of the financial condition of the Company as of January 24, 1998 and the results of operations and of cash flows for the nine months ended January 25, 1997 and January 24, 1998, as presented in the accompanying unaudited consolidated financial data.

DISTRIBUTION RATIO

On May 14, 1998, the U.S. Office Products Board of Directors approved the distribution ratio for the Company in connection with the Distribution. At the date of Distribution, the Company will issue approximately 12.3 million shares of its common stock to U.S. Office Products, which will then distribute such shares to its shareholders in the ratio of of one share of Company common stock for every nine shares of U.S. Office Products common stock held by each shareholder. The share data reflected in the accompanying financial statements represents the historical share data for U.S. Office Products for the period or as of the date indicated, retroactively adjusted to give effect to the one for nine distribution ratio.

NOTE 4--BUSINESS COMBINATIONS

POOLING-OF-INTERESTS METHOD

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

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

The Company's consolidated financial statements give retroactive effect to the acquisitions of the Pooled Companies for all periods presented. Prior to being acquired by U.S. Office Products, the Pooled Companies reported on years ending on December 31. Upon completion of the acquisitions of the

Pooled Companies, their year-ends were changed to U.S. Office Products' year-end of the last Saturday in April.

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

	SCHOOL SPECIALTY	POOLED COMPANIES	COMBINED
For the year ended December 31, 1994			
Revenues	$	$ 119,510	$ 119,510
Net income	$	$ 1,340	$ 1,340
For the year ended December 31, 1995			
Revenues	$	$ 150,482	$ 150,482
Net income (loss)	$	$ (3,367)	$ (3,367)
For the four months ended April 30, 1996			
Revenues	$	$ 28,616	$ 28,616
Net income (loss)	$	$ (4,675)	$ (4,675)
For the year ended April 26, 1997			

Revenues	$ 181,420	$ 10,326	$ 191,746
Net income	$ 7,791	$ 341	$ 8,132
For the nine months ended January 25, 1997 (unaudited):			
Revenues	$ 149,651	$ 10,326	$ 159,977
Net income	$ 3,265	$ 341	$ 3,606
For the nine months ended January 24, 1998 (unaudited):			
Revenues	$ 247,880	$	$ 247,880
Net income	$ 8,835	$	$ 8,835

PURCHASE METHOD

In 1994, one of the Pooled Companies made one acquisition accounted for under the purchase method for an aggregate cash purchase price of $2,106. The total assets related to the acquisition were $22,377. The results of the acquisition have been included in the Company's results from its date of acquisition.

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

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

NOTE 4--BUSINESS COMBINATIONS (CONTINUED)

The following presents the unaudited pro forma results of operations of the Company for the year ended December 31, 1995 and the fiscal year ended April 26, 1997 and includes the Company's consolidated financial statements, which give retroactive effect to the acquisitions of the Pooled Companies for all periods presented, and the results of the companies acquired in purchase acquisitions through April 27, 1997 as if all such purchase acquisitions had been made at the beginning of 1995. The results presented below include certain pro forma adjustments to reflect the amortization of intangible assets, adjustments in executive compensation of $1,200 and $124 for the year ended December 31, 1995 and the fiscal year ended April 26, 1997, respectively, and the inclusion of a federal income tax provision on all earnings:

	FOR THE FISCAL YEAR ENDED	
	DECEMBER 31, 1995	APRIL 26, 1997
Revenues	$ 206,329	$ 206,566
Net income (loss)	(1,199)	2,939

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 1995 or the results which may occur in the future.

NOTE 5--RESTRUCTURING COSTS

The Company records the costs of consolidating existing Company facilities

into acquired operations, including the external costs and liabilities to close redundant Company facilities and severance and relocation costs related to the Company's employees. The following table sets forth the Company's accrued restructuring costs:

	FACILITY CLOSURE AND CONSOLIDATION	SEVERANCE AND TERMINATIONS	OTHER ASSET WRITE-DOWNS AND COSTS	TOTAL
Balance at April 30 1996	$ 641	$ 469	$ 1,422	$ 2,532
Additions			194	194
Utilizations	(641)	(469)	(1,465)	(2,575)
Balance at April 26, 1997			151	151
Utilizations			(151)	(151)
Balance at January 24, 1998 (unaudited)	$	$	$	$

NOTE 6--PREPAID EXPENSES AND OTHER CURRENT ASSETS

Prepaid expenses and other current assets consist of the following:

	APRIL 30, 1996	APRIL 26, 1997
Deferred catalog costs	$ 4,387	$ 5,740
Deferred income taxes		1,184
Other	1,169	3,407
Total prepaid expenses and other current assets	$ 5,556	$ 10,331

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

NOTE 7--PROPERTY AND EQUIPMENT

Property and equipment consists of the following:

	APRIL 30, 1996	APRIL 26, 1997
Land	$ 58	$ 729
Buildings	2,042	6,488
Furniture and fixtures	882	6,502
Warehouse Equipment	8,767	3,163
Leasehold improvements	631	2,185
	12,380	19,067
Less: Accumulated depreciation	(4,733)	(4,589)
Net property and equipment	$ 7,647	$ 14,478

Depreciation expense for the years ended December 31, 1994 and 1995, the four months ended April 30, 1996 and the fiscal year ended April 26, 1997 was $888, $1,645, $470 and $1,540, respectively.

NOTE 8--INTANGIBLE ASSETS

Intangible assets consist of the following:

	APRIL 30, 1996	APRIL 26, 1997	JANUARY 24, 1998
			(UNAUDITED)
Goodwill	$ 8,312	$ 22,128	$ 96,770
Other	1,647	2,020	2,487
	9,959	24,148	99,257
Less: Accumulated amortization	(2,817)	(3,324)	(4,606)
Net intangible assets	$ 7,142	$ 20,824	$ 94,651

NOTE 8--INTANGIBLE ASSETS (CONTINUED)

Amortization expense for the years ended December 31, 1994 and 1995, the four months ended April 30, 1996, the fiscal year ended April 26, 1997 and the nine months ended January 24, 1998 was $757, $1,098, $204, $566 and $1,411 (unaudited), respectively.

NOTE 9--CREDIT FACILITIES

SHORT-TERM DEBT

Short-term debt consists of the following:

	APRIL 30, 1996	APRIL 26, 1997
Credit facilities with banks, average interest rates ranging from 10% to 10.75% at April 30, 1996	$ 21,898	$
Subordinated debt, interest at 8% at April 30, 1996	1,000	
Other	441	30
Current maturities of long-term debt	2,548	232
Total short-term debt	$ 25,887	$ 262

LONG-TERM DEBT

Long-term debt consists of the following:

	APRIL 30, 1996	APRIL 26, 1997
Subordinated notes, at 12.5% at April 30, 1996	$ 13,325	$
Note payable to former shareholder, interest at 10% at April 30, 1996	2,717	
Other	953	483
Capital lease obligations	584	315
	17,579	798
Less: Current maturities of long-term debt	(2,548)	(232)
Total long-term debt	$ 15,031	$ 566

The agreement related to the subordinated notes provided for the bank and its agents to receive 12,551 and 14,941 detachable warrants for Pooled Company common stock in June 1994 and January 1995, respectively. The warrants were valued at $45 per share with such amount deducted from the face value of the subordinated notes. In conjunction with the acquisition of the Pooled Company by U.S. Office Products, the outstanding subordinated debt balance was paid in full and all of the outstanding warrants were exercised and subsequently converted to U.S. Office Products common stock.

NOTE 9--CREDIT FACILITIES (CONTINUED)
MATURITIES OF LONG-TERM DEBT

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

1998	$ 232
1999	216
2000	204
2001	41
2002	36
Thereafter	68
Total maturities of long-term debt	$ 797

PAYABLE TO U.S. OFFICE PRODUCTS

The short-term payable to U.S. Office Products was incurred by the Company primarily as a result of U.S. Office Products repaying short-term debt outstanding of the businesses acquired by U.S. Office Products at or soon after the respective dates of acquisition and through the centralized cash management system, which involves daily advances or sweeps of cash to keep the cash balance at or near zero on a daily basis.

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

Balance at April 30, 1996	$
Payments of long-term debt of acquired companies	21,379
Funding of acquisitions and payment of acquisition costs	8,203
Allocated corporate expenses	2,221
Normal operating costs paid by U.S. Office Products	1,423
Balance at April 26, 1997	33,226
Unaudited data:	
Payments of long-term debt of acquired companies	822
Funding of acquisitions and payment of acquisition costs	24,646
Allocated corporate expenses	3,089
Normal operating costs paid by U.S. Office Products	687
Balance at January 24, 1998 (unaudited)	$ 62,470

The average outstanding long-term payable to U.S. Office Products during the fiscal year ended April 26, 1997 and the nine months ended January 24, 1998 was $27,269 and $47,767 (unaudited), respectively.

Interest has been allocated to the Company based upon the Company's average outstanding payable (short-term and long-term) balance with U.S. Office Products at U.S. Office Products' weighted average interest rate during such period. The Company's financial statements include allocations of

NOTE 9--CREDIT FACILITIES (CONTINUED)

interest expense from U.S. Office Products totaling $3,879 and $4,057 (unaudited) during the year ended April 26, 1997 and the nine months ended Janaury 24, 1998, respectively.

NOTE 10--INCOME TAXES

The provision for income taxes consists of:

	FOR THE YEAR ENDED		FOR THE FOUR MONTHS ENDED	FOR THE FISCAL YEAR ENDED
	DECEMBER 31, 1994	DECEMBER 31, 1995	APRIL 30, 1996	APRIL 26, 1997
Income taxes currently payable:				
Federal	$ (165)	$ (66)	$	$ 71
State	149			99
	(16)	(66)		170
Deferred income tax expense (benefit)	234	239	139	(2,582)
Total provision for (benefit from) income taxes	$ 218	$ 173	$ 139	$ (2,412)

Deferred taxes are comprised of the following:

	APRIL 30, 1996	APRIL 26, 1997
Current deferred tax assets:		
Inventory	$ (349)	$ 265
Allowance for doubtful accounts	106	193
Net operating loss carryforward	3,820	3,069
Accrued liabilities	332	421
Prepaid catalog advertising/restructuring	(205)	(1,893)
Total current deferred tax assets	3,704	2,055
Long-term deferred tax assets (liabilities):		
Property and equipment	(126)	(289)
Intangible assets	622	258
Total long-term deferred tax assets (liabilities)	496	(31)

Subtotal	4,200	2,024
Valuation allowance	(5,339)	
Net deferred tax asset (liability)	$ (1,139)	$ 2,024

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

NOTE 10--INCOME TAXES (CONTINUED)

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

	FOR THE YEAR ENDED		FOR THE FOUR MONTHS ENDED	FOR THE FISCAL YEAR ENDED
	DECEMBER 31, 1994	DECEMBER 31, 1995	APRIL 30, 1996	APRIL 26, 1997
U.S. federal statutory rate	34.0%	34.0%	35.0%	35.0%
State income taxes, net of federal income tax benefit for fiscal 1997	9.6			1.0
Net operating loss utilized	(33.0)			
Net benefit for current year net operating loss		(34.0)	(32.8)	
Reversal of valuation allowance				(84.8)
Nondeductible goodwill			(2.2)	1.6
Nondeductible acquisition costs				5.0
Tax on separate company income not offset against other company's loss		(5.4)	(3.0)	
Other	3.4			
Effective income tax rate	14.0%	(5.4)%	(3.0)%	(42.2)%

NOTE 11--LEASE COMMITMENTS

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

	CAPITAL LEASES	OPERATING LEASES
1998	$ 232	$ 871
1999	118	806
2000	6	599
2001		517
2002		496
Thereafter		1,057
Total minimum lease payments	356	$ 4,346
Less: Amounts representing interest	(42)	
Present value of net minimum lease payments	$ 314	

Rent expense for the years ended December 31, 1994 and 1995, the four months ended April 30, 1996 and the fiscal year ended April 26, 1997 was $1,486, $1,947, $600 and $1,817, respectively.

NOTE 12--COMMITMENTS AND CONTINGENCIES

LITIGATION

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

POSTEMPLOYMENT BENEFITS

The Company has entered into employment agreements with several employees that would result in payments to these employees upon a change of control or certain other events. No amounts have been accrued at April 30, 1996 or April 26, 1997 related to these agreements, as no change of control has occurred.

DISTRIBUTION

Under the Distribution Agreement, the Company is required, on or prior to the Distribution, to obtain a credit facility, to borrow funds under such facility and to use the proceeds of such borrowings to pay off $83.3 million of U.S. Office Products' debt. See additional discussion in Note 16.

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

NOTE 13--EMPLOYEE BENEFIT PLANS

Effective September 1, 1996, the Company implemented the U.S. Office Products 401(k) Retirement Plan (the "401(k) Plan") which allows employee contributions in accordance with Section 401(k) of the Internal Revenue Code.

The Company matches a portion of employee contributions and all full-time employees are eligible to participate in the 401(k) Plan after one year of service.

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

cases made matching contributions on behalf of the employees. For the years ended December 31, 1994 and 1995 and the four months ended April 30, 1996, the subsidiaries incurred expenses totaling $175, $105 and $6, respectively, related to these plans.

NOTE 14--STOCKHOLDER'S EQUITY

CAPITAL CONTRIBUTION BY U.S. OFFICE PRODUCTS

During the nine months ended January 24, 1998, U.S. Office Products contributed $69,762 of capital to the Company. The contribution reflects the forgiveness of intercompany debt by U.S. Office Products, as it was agreed that the Company would be allocated only $80,000 of debt plus the amount of any additional debt incurred after January 12, 1998 in connection with the acquisition of entities that will become subsidiaries of School Specialty.

EMPLOYEE STOCK PLANS

Prior to the Distribution, certain employees of the Company participated in the U.S. Office Products 1994 Long-Term Compensation Plan covering employees of U.S. Office Products. The Company expects to adopt an employee stock option plan at approximately the time of the Distribution. The Company expects to replace the options to purchase shares of common stock of U.S. Office Products held by employees with options to purchase shares of common stock of the Company. U.S. Office Products granted 249,600 options to Company employees under the Plan during fiscal 1997; and the Company accounted for these options in accordance with APB Opinion No. 25. Accordingly, because the exercise prices of the options have equaled the market price on the date of grant, no compensation expense was recognized for the options granted. Had compensation expense been recognized based upon the fair value of the stock options on the grant date under the methodology prescribed by SFAS No. 123, "Accounting for Stock-Based Compensation," the Company's net income and basic net income per share for the year ended April 26, 1997 would have been reduced by $749 and $0.01, respectively.

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

Immediately following the effective date of the registration statements filed in connection with the IPO and the Distribution, the Company's Board of Directors is expected to grant options covering 7.5% of the outstanding shares of the Company's common stock, immediately following the Distribution and prior to the IPO, to certain executive management personnel (excluding the 7.5% granted to Mr. Ledecky). The options granted will be granted under the 1998 Stock Incentive Plan (the "Plan") and will have a per share exercise price equal to the IPO price, with other terms to be determined by the Company's Board of Directors. Total options available for grant under the Plan will be 20.0% of the

NOTE 14--STOCKHOLDER'S EQUITY (CONTINUED)

outstanding shares of the Company's common stock immediately following the Distribution and the IPO, including the options to be granted to Mr. Ledecky on that date.

The Company will be required to disclose in the footnotes to the financial statements the impact of the compensation expense associated with these options on a pro forma basis in accordance with FAS 123.

NOTE 15--QUARTERLY FINANCIAL DATA (UNAUDITED)

The following presents certain unaudited quarterly financial data for the year ended December 31, 1995 and the fiscal year ended April 26, 1997:

	YEAR ENDED DECEMBER 31, 1995				
	FIRST	SECOND	THIRD	FOURTH	TOTAL
Revenues	$ 18,760	$ 36,702	$ 69,192	$ 25,828	$ 150,482
Gross profit	4,960	11,130	20,795	7,840	44,725
Operating income (loss)	(3,014)	1,196	8,934	(4,792)	2,324
Net income (loss)	(3,711)	(252)	4,309	(3,713)	(3,367)

	YEAR ENDED APRIL 26, 1997				
	FIRST	SECOND	THIRD	FOURTH	TOTAL
Revenues	$ 58,991	$ 71,682	$ 29,304	$ 31,769	$ 191,746
Gross profit	18,110	19,823	7,664	9,572	55,169
Operating income (loss)	5,197	6,732	(1,520)	(688)	9,721
Net income (loss)	1,981	2,692	(1,067)	4,526	8,132

NOTE 16--SUBSEQUENT EVENTS (UNAUDITED)

DISTRIBUTION AND ACQUISITIONS PRO FORMA

On January 13, 1998, U.S. Office Products announced its intention to complete the Distribution described in Note 1. In addition, subsequent to April 26, 1997, the Company has completed eight business combinations accounted for under the purchase method for an aggregate purchase price of $98,892, consisting of $95,326 of cash and U.S. Office Products Common Stock with a market value of $3,566. The total assets related to these eight acquisitions were $123,222,

including goodwill of $77,541. The results of operations for the nine months ended January 24, 1998 include the results of the acquired companies from their respective dates of acquisition.

The following presents the unaudited pro forma results of operations of the Company for fiscal 1997 as if the acquisitions described above and the six acquisitions accounted for under the purchase method completed in fiscal 1997 (see Note 4) had been consummated as of the beginning of fiscal 1997. The results presented below include certain pro forma adjustments to reflect the amortization of intangible

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

assets and adjustments in executive compensation of $124 for the fiscal year ended April 26, 1997 and the nine months ended January 25, 1997:

	FISCAL YEAR ENDED APRIL 26, 1997	NINE MONTHS ENDED JANUARY 25, 1997	NINE MONTHS ENDED JANUARY 24, 1998
Revenues	$ 350,760	$ 292,244	$ 318,667
Net income	11,714	7,809	9,991

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

The Distribution Agreement allocates a specified amount of U.S. Office Products' debt outstanding under its credit facilities to each Spin-Off Company and requires each Spin-Off Company, on or prior to the Distribution, to obtain credit facilities, to borrow funds under such facilities and to use the proceeds of such borrowings to pay off the U.S. Office Products' debt so allocated plus any additional debt incurred by U.S. Office Products after January 12, 1998 (the date of the Investment Agreement) in connection with the acquisition of an entity that has become or will become a subsidiary of such Spin-Off Company. Under the Distribution Agreement, $80,000 of U.S. Office Products' debt has been allocated to School Specialty, and since January 12, 1998, U.S. Office Products has incurred an additional $3,300 of debt in connection with School Specialty's acquisition of Education Access. Prior to the Distribution, School Specialty will enter into the credit facility and will borrow $83,300 under the facility to pay off debt of U.S. Office Products.

PROPOSED CREDIT FACILITY

The Company has received a committment letter for a secured $250,000 revolving credit facility from NationsBank, N.A. as administrative agent. NationsBanc Montgomery Securities LLC, one of the Underwriters and an affiliate

of NationsBank, N.A., is the Arranger and Syndication Agent. The credit facility will terminate five years from the Distribution Date. Interest on borrowings under the credit facility will accrue interest at a rate of, at the Company's option, either LIBOR plus 1.00% or the lender's base rate, plus a margin of 0% to .25% for up to the first 6 months under the agreement. Thereafter, interest will accrue at a rate of (i) LIBOR plus a range of .625% to 1.625%, or (ii) the lender's base rate plus a range of .125% to .250% (depending on the Company's leverage ratio of funded debt to EBITDA). Indebtedness will be secured by substantially all of the assets of the Company. The credit facility will be subject to terms and conditions typical of facilities of such size and will include certain financial covenants. The Company will borrow under the credit facility to repay the U.S. Office Products' debt which it is obligated under the Distribution Agreement to repay. The balance of the credit facility will be available for working capital, capital expenditures and acquisitions, subject to compliance with financial covenants.

SCHOOL SPECIALTY, INC.

PRO FORMA COMBINED FINANCIAL STATEMENTS

(UNAUDITED)

The unaudited pro forma financial statements give effect to the refinancing of all amounts payable to U.S. Office Products, and acquisitions completed through May 1, 1998 and the Distribution. The pro forma offering adjustments further adjust such pro forma financial statements to give effect to the Offering and the sale of 250,000 shares of Common Stock to Messrs. Spalding, Vander Zanden and Pate and the use of the proceeds therefrom to repay a portion of the debt incurred to refinance the amounts payable to U.S. Office Products.

The pro forma combined balance sheet gives effect to (i) the refinancing of all amounts payable to U.S. Office Products, (ii) the acquisition completed after January 24, 1998, and (iii) the Distribution, as if such transactions had occurred as of the Company's most recent balance sheet date, January 24, 1998.

The pro forma combined statement of income for the fiscal year ended April 26, 1997 gives effect to (i) the refinancing of all amounts payable to U.S. Office Products; (ii) the acquisitions of six individually insignificant companies in business combinations accounted for under the purchase method completed during the fiscal year ended April 26, 1997 (the "Fiscal 1997 Purchase Acquisitions"); and (iii) the acquisitions of Childcraft Education Corp., Sax Arts & Crafts, Inc. ("Sax Arts & Crafts"), American Academic and four other individually insignificant companies in business combinations accounted for under the purchase method completed during the fiscal year ending April 25, 1998 (the "Fiscal 1998 Purchase Acquisitions"), as if all such transactions had occurred on May 1, 1996. The pro forma combined statement of income for the year ended April 26, 1997 includes (i) the audited financial information of the Company for the year ended April 26, 1997; (ii) the unaudited financial information of the Fiscal 1997 Purchase Acquisitions for the period from May 1, 1996 through their respective dates of acquisition; and (iii) the unaudited financial information of the Fiscal 1998 Purchase Acquisitions for the period from May 1, 1996 through April 26, 1997.

The pro forma combined statement of income for the nine months ended January 24, 1998 gives effect to the refinancing of all amounts payable to U.S. Office Products and the Fiscal 1998 Purchase Acquisitions, as if all such transactions had occurred on April 27, 1997. The pro forma combined statement of income for the nine months ended January 24, 1998 includes the unaudited financial

information of the Company for the nine months ended January 24, 1998 and the unaudited financial information of the Fiscal 1998 Purchase Acquisitions for the period from April 27, 1997 through the earlier of their respective dates of acquisition or January 24, 1998.

The pro forma combined statement of income for the nine months ended January 25, 1997 gives effect to (i) the refinancing of all amounts payable to U.S. Office Products; (ii) the Fiscal 1997 Purchase Acquisitions; and (iii) the Fiscal 1998 Purchase Acquisitions, as if all such transactions had occurred on May 1, 1996. The pro forma combined statement of income for the nine months ended January 25, 1997 includes (i) the unaudited financial information of the Company for the nine months ended January 25, 1997; (ii) the unaudited financial information of the Fiscal 1997 Purchase Acquisitions for the period from May 1, 1996 through the earlier of their respective dates of acquisition or January 25, 1997; and (iii) the unaudited financial information of the Fiscal 1998 Purchase Acquisitions for the period from May 1, 1996 through January 25, 1997.

The historical financial statements of the Company give retroactive effect to the results of School Specialty, Inc., a Wisconsin corporation, and The Re-Print Corporation, which were acquired by the Education Division during the fiscal year ended April 26, 1997 in business combinations accounted for under the pooling-of-interests method of accounting.

The historical financial statements of the Company also reflect an allocated portion of general and administrative costs and interest expense incurred by U.S. Office Products. The allocated costs include expenses such as: certain corporate executives' salaries, accounting and legal fees, departmental costs for accounting, finance, legal, purchasing, marketing and human resources, as well as other general overhead costs. These corporate overheads have been allocated to the Company using one of several factors, dependent on the nature of the costs being allocated, including, revenues, number and size of acquisitions and number of employees. Interest expense has been allocated to the Company based upon the Company's average outstanding intercompany balance with U.S. Office Products at U.S. Office Products' weighted average interest rate during such period.

In the first quarter of fiscal 1999, the Company will record a compensation charge of approximately $263,000, representing the difference between the amount which Messrs. Spalding, Vander Zanden and Pate will pay for the 250,000 shares of Common Stock to be purchased directly from the Company and the amount which they would have paid for such shares if the purchase price per share had been the initial public offering price of the shares offered in the Offering. Because this charge is non-recurring, it has not been reflected in the pro forma statements of income.

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

the other financial statements and notes thereto included elsewhere in this Prospectus.

SCHOOL SPECIALTY, INC.

PRO FORMA COMBINED BALANCE SHEET

JANUARY 24, 1998

(IN THOUSANDS)
(UNAUDITED)

	SCHOOL SPECIALTY, INC.	POST JANUARY 24, 1998 PURCHASE ACQUISTION	PRO FORMA ADJUSTMENTS	SUBTOTAL	PRO FORMA OFFERING ADJUSTMENTS	PRO FORMA COMBINED
ASSETS						
Current assets:						
Cash and cash equivalents	$	$	$	$	$ 31,631(d) (31,631)(d)	$
Accounts receivable, net	41,530			41,530		41,530
Inventory	32,946	100		33,046		33,046
Prepaid and other current assets	8,997			8,997		8,997
Total current assets	83,473	100		83,573		83,573
Property and equipment, net	20,489	350		20,839		20,839
Intangible assets, net	94,651		2,800(a)	97,451		97,451
Other assets	2,594			2,594		2,594
Total assets	$ 201,207	$ 450	$ 2,800	$ 204,457	$	$ 204,457
LIABILITIES AND STOCKHOLDER'S EQUITY						
Current liabilities:						
Short term debt	$ 272	$	$	$ 272	$	$ 272
Short-term Payable to U.S. Office Products	16,873		(16,873)(b)			
Accounts payable	11,951			11,951		11,951
Accrued compensation	5,502			5,502		5,502
Other accrued liabilities	5,262			5,262		5,262
Total current liabilities	39,860		(16,873)	22,987		22,987
Long-term debt	385		82,593(b)	82,978	(31,631)(d)	51,347
Long-term Payable to U.S. Office Products	62,470		3,250(a) (65,720)(b)			
Total liabilities	102,715		3,250	105,965	(31,631)	74,334
Stockholder's equity:						
Common Stock			13(c)	13	2(d)	15
Additional paid-in capital			93,300(c)	93,300	31,629(d)	124,929
Divisional equity	93,313		(93,313)(c)			
Retained earnings	5,179			5,179		5,179
Equity in Purchased Company		450	(450)(a)			
Total stockholder's equity	98,492	450	(450)	98,492	31,631	130,123
Total liabilities and stockholder's equity	$ 201,207	$ 450	$ 2,800	$ 204,457	$	$ 204,457

See accompanying notes to pro forma combined financial statements.

SCHOOL SPECIALTY, INC.

PRO FORMA COMBINED STATEMENT OF INCOME

FOR THE NINE MONTHS ENDED JANUARY 24, 1998

(IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

(UNAUDITED)

	SCHOOL SPECIALTY, INC.	SAX ARTS & CRAFTS	AMERICAN ACADEMIC	INDIVIDUALLY INSIGNIFICANT FISCAL 1998 PURCHASE ACQUISITIONS	PRO FORMA ADJUSTMENTS	SUBTOTAL	PRO FORMA OFFERING ADJUSTMENTS
Revenues....................	$ 247,880	$ 5,421	$ 36,423	$ 28,943	$	$ 318,667	$
Cost of revenues............	176,501	3,467	26,203	21,314		227,485	
Gross profit............	71,379	1,954	10,220	7,629		91,182	
Selling, general and administrative expenses....	49,588	1,451	6,968	6,425	224(f)	64,656	
Amortization expense.........	1,411				556(g)	1,967	
Operating income.........	20,380	503	3,252	1,204	(780)	24,559	
Other (income) expense:							
Interest expense...........	4,100	18	441	38	938(h)	5,535	(1,898)(j)
Interest income............	(109)	(3)		(4)	116(h)		
Other......................	441		24	57		522	
Income before provision for income taxes...............	15,948	488	2,787	1,113	(1,834)	18,502	1,898
Provision for income taxes...	7,113	189	892	141	176(i)	8,511	759
Net (loss) income...........	$ 8,835	$ 299	$ 1,895	$ 972	$ (2,010)	$ 9,991	$ 1,139
Weighted average shares:							
Basic......................	12,751					12,300(k)	
Diluted....................	13,020					12,300(k)	
Net income per share:							
Basic......................	$ 0.69					$ 0.81	
Diluted....................	$ 0.68					$ 0.81	

	PRO FORMA COMBINED
Revenues....................	$ 318,667
Cost of revenues............	227,485
Gross profit............	91,182
Selling, general and administrative expenses....	64,656
Amortization expense.........	1,967
Operating income.........	24,559
Other (income) expense:	
Interest expense...........	3,637
Interest income............	
Other......................	522
Income before provision for income taxes...............	20,400
Provision for income taxes...	9,270
Net (loss) income...........	$ 11,130
Weighted average shares:	
Basic......................	14,675(l)
Diluted....................	14,675(l)
Net income per share:	
Basic......................	$ 0.76
Diluted....................	$ 0.76

See accompanying notes to pro forma combined financial statements.

SCHOOL SPECIALTY, INC.

PRO FORMA COMBINED STATEMENT OF INCOME

FOR THE NINE MONTHS ENDED JANUARY 25, 1997

(IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

(UNAUDITED)

	SCHOOL SPECIALTY, INC.	SAX ARTS & CRAFTS	AMERICAN ACADEMIC	INDIVIDUALLY INSIGNIFICANT FISCAL 1998 PURCHASE ACQUISITIONS	INDIVIDUALLY INSIGNIFICANT FISCAL 1997 PURCHASE ACQUISITIONS	PRO FORMA ADJUSTMENTS	SUBTOTAL
Revenues.............	$ 159,977	$ 28,717	$ 34,024	$ 54,706	$ 14,820	$	$ 292,244

Cost of revenues	114,380	16,663	24,784	36,510	11,368		203,705
Gross profit	45,597	12,054	9,240	18,196	3,452		88,539
Selling, general and administrative expenses	33,000	7,504	6,702	13,773	3,312	(124)(e) 830(f)	64,997
Amortization expense	396					1,533(g)	1,929
Non-recurring acquisition costs	1,792						1,792
Operating income	10,409	4,550	2,538	4,423	140	(2,239)	19,821
Other (income) expense:							
Interest expense	3,358	400	641	206	176	754(h)	5,535
Interest income	(101)			(37)		138(h)	
Other	(204)	(27)		67	(10)		(174)
Income before provision for income taxes	7,356	4,177	1,897	4,187	(26)	(3,131)	14,460
Provision for income taxes	3,750	1,620		395	111	775(i)	6,651
Net (loss) income	$ 3,606	$ 2,557	$ 1,897	$ 3,792	$ (137)	$ (3,906)	$ 7,809
Weighted average shares:							
Basic	9,553						12,300(k)
Diluted	9,758						12,300(k)
Net income per share:							
Basic	$ 0.38						$ 0.63
Diluted	$ 0.37						$ 0.63

	PRO FORMA OFFERING ADJUSTMENTS	PRO FORMA COMBINED
Revenues	$	$ 292,244
Cost of revenues		203,705
Gross profit		88,539
Selling, general and administrative expenses		64,997
Amortization expense		1,929
Non-recurring acquisition costs		1,792
Operating income		19,821
Other (income) expense:		
Interest expense	(1,898)(j)	3,637
Interest income		
Other		(174)
Income before provision for income taxes	1,898	16,358
Provision for income taxes	759	7,410
Net (loss) income	$ 1,139	$ 8,948
Weighted average shares:		
Basic		14,675(l)
Diluted		14,675(l)
Net income per share:		
Basic		$ 0.61
Diluted		$ 0.61

See accompanying notes to pro forma combined financial statements.

SCHOOL SPECIALTY, INC.

PRO FORMA COMBINED STATEMENT OF INCOME

FOR THE FISCAL YEAR ENDED APRIL 26, 1997

(IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

(UNAUDITED)

	SCHOOL SPECIALTY, INC.	SAX ARTS & CRAFTS	AMERICAN ACADEMIC	INDIVIDUALLY INSIGNIFICANT FISCAL 1998 PURCHASE ACQUISITIONS	INDIVIDUALLY INSIGNIFICANT FISCAL 1997 PURCHASE ACQUISITIONS	PRO FORMA ADJUSTMENTS	SUBTOTAL
Revenues............	$ 191,746	$ 34,542	$ 40,563	$ 69,089	$ 14,820	$	$ 350,760
Cost of revenues.....	136,577	20,067	29,608	46,776	11,368		244,396
Gross profit.....	55,169	14,475	10,955	22,313	3,452		106,364
Selling, general and administrative expenses..........	42,896	9,698	8,102	18,056	3,312	(124)(e) 1,016(f)	82,956
Amortization expense...........	566					1,908(g)	2,474
Non-recurring acquisition costs..	1,792						1,792
Restructuring costs..	194						194
Operating income.........	9,721	4,777	2,853	4,257	140	(2,800)	18,948
Other (income) expense:							
Interest expense...	4,197	474	850	234	176	1,369(h)	7,300
Interest income....				(45)		45(h)	
Other.............	(196)	(33)		81	(10)		(158)
Income (loss) before provision for income taxes.......	5,720	4,336	2,003	3,987	(26)	(4,214)	11,806
Provision for income taxes.............	(2,412)	1,664	34	618	111	77(i)	92
Net (loss) income....	$ 8,132	$ 2,672	$ 1,969	$ 3,369	$ (137)	$ (4,291)	$ 11,714
Weighted average shares outstanding:							
Basic...........	10,003						12,300(k)
Diluted.........	10,196						12,300(k)
Net income per share:							
Basic...........	$ 0.81						$ 0.95
Diluted.........	$ 0.80						$ 0.95

	PRO FORMA OFFERING ADJUSTMENTS	PRO FORMA COMBINED
Revenues............	$	$ 350,760
Cost of revenues.....		244,396
Gross profit.....		106,364
Selling, general and administrative expenses..........		82,956
Amortization expense...........		2,474
Non-recurring acquisition costs..		1,792
Restructuring costs..		194
Operating income.........		18,948
Other (income) expense:		
Interest expense...	(2,530)(j)	4,770
Interest income....		
Other.............		(158)
Income (loss) before provision for income taxes.......	2,530	14,336
Provision for income taxes.............	1,012	1,104
Net (loss) income....	$ 1,518	$ 13,232
Weighted average shares outstanding:		
Basic...........		14,675(l)
Diluted.........		14,675(l)
Net income per share:		
Basic...........		$ 0.90
Diluted.........		$ 0.90

See accompanying notes for pro forma combined financial statements.

SCHOOL SPECIALTY, INC.

NOTES TO PRO FORMA COMBINED FINANCIAL STATEMENTS

(UNAUDITED)

(DOLLARS AND SHARE AMOUNTS IN THOUSANDS)

1. UNAUDITED PRO FORMA COMBINED BALANCE SHEET ADJUSTMENTS

(a) Adjustment to reflect purchase price adjustments associated with acquisition of Education Access for $3,250 of cash provided by U.S. Office Products. The portion of the consideration assigned to goodwill ($2,800) in the transaction accounted for under the purchase method represents the excess of the cost over the fair market value of the net assets acquired. The Company amortizes goodwill over a period of 40 years. The recoverability of the unamortized goodwill will be assessed on an ongoing basis by comparing anticipated undiscounted future cash flows from operations to net book value.

(b) Adjustment to reflect the refinancing of the payable to U.S. Office Products with the proceeds received from expected borrowings under the revolving credit facility with a third party.

(c) Adjustment to reflect the reclassification of divisional equity to common stock and additional paid in capital as a result of the Distribution. The Distribution will result in the issuance of 12,300 shares of common stock.

(d) Adjustment to reflect $31,631 of net proceeds from the sale of 2,375 shares of Common Stock as part of the Offering (net of expenses and underwriting discount) and the utilization of the proceeds to repay long-term debt.

2. UNAUDITED PRO FORMA COMBINED STATEMENT OF INCOME ADJUSTMENTS

(e) Adjustment to reflect reductions in executive compensation as a result of the elimination of certain executive positions and the renegotiations of executive compensation agreements resulting from certain acquisitions. The Company believes that these reductions are expected to remain in place for the foreseeable future and are not reasonably likely to affect the operating performance of the Company.

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

(g) Adjustment to reflect the increase in amortization expense relating to goodwill recorded in purchase accounting related to the Fiscal 1997 and Fiscal 1998 Purchase Acquisitions for the periods prior to the respective dates of acquisition. The Company has recorded goodwill amortization in the historical financial statements from the respective dates of acquisition forward. The goodwill is being amortized over an estimated life of 40 years.

(h) Adjustment to reflect the increase in interest expense. Interest expense is being calculated on the average pro forma debt outstanding during the applicable periods at a weighted average interest rate of approximately 8.0%. The adjustment also reflects a reduction in interest income to zero as the Company generally expects to use available cash to repay debt. Pro forma interest expense will fluctuate $65 on an annual basis for each 0.125% change in interest rates.

(i) Adjustment to calculate the provision for income taxes on the combined pro

forma results. The difference between the effective tax rate of 46% and the statutory tax rate of 35% for the nine months ended January 25, 1997 and January 24, 1998 relates primarily to state income taxes and non-deductible goodwill. The difference between the effective pro forma tax rate and the statutory tax

2. UNAUDITED PRO FORMA COMBINED STATEMENT OF INCOME ADJUSTMENTS (CONTINUED)

rate for the fiscal year ended April 26, 1997 relates primarily to state taxes and nondeductible goodwill, offset by the reversal of a $5,300 deferred tax valuation allowance.

(j) Adjustment to reflect a decrease in interest expense as a result of the utilization of the net proceeds from the Offering and sale of shares to Messrs. Spalding, Vander Zanden and Pate of $31,631 to repay long-term debt at an annual interest rate of 8%.

(k) The approximately 12,300 weighted average shares outstanding used to calculate pro forma earnings per share is calculated based upon approximately 110,700 shares of U.S. Office Products common stock expected to be outstanding on the date of the School Specialty Distribution divided by nine, which is the Distribution Ratio. The shares of U.S. Office Products common stock expected to be outstanding on the date of the School Distribution are based upon (a) approximately 133,800 shares currently outstanding, plus (b) approximately 8,900 shares expected to be issued on conversion of U.S. Office Products convertible debt, plus (c) approximately 5,000 shares expected to be issued on exercise of outstanding U.S. Office Products stock options, minus (d) approximately 37,000 shares expected to be accepted in U.S. Office Products' equity self-tender which is part of the Strategic Restructuring Plan.

(l) The approximately 14,675 weighted average shares outstanding used to calculate pro forma as adjusted earnings per share is based upon the approximately 12,300 shares of common stock to be issued as a result of the School Specialty Distribution plus 2,125 shares to be sold in the Offering and 250 shares to be sold to Messrs. Spalding, Vander Zanden and Pate.

INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
American Academic Suppliers Holding Corporation

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

our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

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

ALTSCHULER, MELVOIN AND GLASSER LLP

Chicago, Illinois
February 24, 1997

AMERICAN ACADEMIC SUPPLIERS HOLDING CORPORATION

AND SUBSIDIARY

CONSOLIDATED BALANCE SHEET

	DECEMBER 31,		SEPTEMBER 30,
	1995	1996	1997
			(UNAUDITED)
ASSETS			
Current Assets:			
Cash	$ 7,228	$ 21,507	$ 9,841
Trade accounts receivable (net of allowance for doubtful accounts of $25,000)	4,525,451	3,656,546	13,476,228
Inventories (Note 1)	1,805,731	1,599,140	2,398,435
Other current assets and prepaid expenses	127,673	173,549	269,234
	6,466,083	5,450,742	16,153,738
Property, Plant and Equipment (less accumulated depreciation-- Notes 1 and 2)	3,081,784	2,949,000	2,845,858
Other Assets:			
Excess of cost over the fair value of net assets acquired (less accumulated amortization of $320,322 $433,022, $509,311, respectively-- Note 1)	4,187,938	4,075,238	4,030,878
Deferred financing costs (less accumulated amortization of $21,729, $42,729, and $50,965 respectively--Note 1)	40,544	19,544	0
Deposits	37,581	64,211	0
	4,266,063	4,158,993	4,030,878
	$13,813,930	$12,558,735	$ 23,030,474

LIABILITIES AND SHAREHOLDERS' EQUITY

Current Liabilities:

Accounts payable	$ 1,476,312	$ 1,636,969	$ 4,281,450
Current portion of long-term debt (Note 4)	168,673	3,135	10,772,516
Other current liabilities and accrued expenses (Notes 3 and 9)	1,968,780	736,374	2,391,544
	3,613,765	2,376,478	17,445,510
Long-term Liabilities:			
Long-term debt (Note 4)	7,712,187	6,407,152	0
Shareholders' Equity:			
Common stock, (10,000 shares of $.01 par value authorized; 1,209, 1,232 and 1,232 shares issued and outstanding at December 31, 1995, 1996, and September 30, 1997, respectively--Note 8)	12	12	12
Additional paid-in capital	5,528,073	5,648,073	5,648,073
Retained earnings (Accumulated deficit)	(1,463,356)	(296,229)	1,513,630
	4,064,729	5,351,856	7,161,715
Excess of Purchase Price over Predecessor Basis (Note 1)	(1,576,751)	(1,576,751)	(1,576,751)
	2,487,978	3,775,105	5,584,964
	$13,813,930	$12,558,735	$ 23,030,474

The accompanying notes are an integral part of this statement.

AMERICAN ACADEMIC SUPPLIERS HOLDING CORPORATION
AND SUBSIDIARY
CONSOLIDATED STATEMENT OF OPERATIONS

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

The accompanying notes are an integral part of this statement.

AMERICAN ACADEMIC SUPPLIERS HOLDING CORPORATION AND SUBSIDIARY

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

	SHARES ISSUED AND OUTSTANDING	PAR VALUE	ADDITIONAL PAID-IN CAPITAL	RETAINED EARNINGS (ACCUMULATED DEFICIT)	EXCESS OF PURCHASE PRICE OVER PREDECESSOR BASIS	TOTAL SHAREHOLDERS' EQUITY
Balances, December 31, 1994	1,209	$ 12	$5,528,073	$ (1,633,290)	$(1,576,751)	$ 2,318,044
Net Income, Year Ended December 31, 1995				169,934		169,934
Balances, December 31, 1995	1,209	12	5,528,073	(1,463,356)	(1,576,751)	2,487,978
Issuance of Common Stock (Note 8)	23		120,000			120,000
Net Income, Year Ended December 31, 1996				1,167,127		1,167,127
Balances, December 31, 1996	1,232	12	5,648,073	(296,229)	(1,576,751)	3,775,105
Unaudited data:						
Net Income, Nine Months Ended September 30, 1997				1,809,859		1,809,859
Balances, September 30, 1997 (unaudited)	1,232	$ 12	$5,648,073	$ 1,513,630	$(1,576,751)	$ 5,584,964

See accompanying notes to pro forma combined financial statements.

AMERICAN ACADEMIC SUPPLIERS HOLDING CORPORATION AND SUBSIDIARY CONSOLIDATED STATEMENT OF CASH FLOWS

	YEAR ENDED DECEMBER 31,		NINE MONTHS ENDED SEPTEMBER 30,	
	1995	1996	1996	1997
			(UNAUDITED)	
Cash Flows from Operating Activities:				
Net income	$ 169,934	$ 1,167,127	$ 2,242,060	$ 1,809,859
Adjustments to reconcile net income to net cash provided by operating activities:				
Depreciation and amortization	404,222	381,791	281,842	292,031
Change in assets and liabilities:				
Accounts receivable (net)	643,826	868,905	(6,575,016)	(9,819,682)
Inventories	172,680	206,591	(523,208)	(799,296)
Other assets	(56,950)	(72,506)	(95,646)	(89,177)
Accounts payable	(140,915)	160,657	2,010,499	2,643,464
Other liabilities and accrued expenses	968,782	(1,232,406)	(1,530,288)	1,652,036
Net cash provided by (used in) operating activities	2,161,579	1,480,159	(4,189,757)	(4,310,765)
Cash Flows Used in Investing Activities:				
Purchases of property and equipment	(197,298)	(115,307)	(108,329)	(67,282)
Cash Flows from Financing Activities:				
Repayment of revolving line of credit (net)	(1,929,681)	(1,305,935)	4,227,957	5,766,671
Repayment of term loans and mortgage	(96,046)	(107,306)	(81,277)	(1,400,290)
Principal payment on capital lease obligation	(1,305)	(3,496)		
Repayment of promissory note payable to shareholder	0	(53,836)		

Proceeds from sale of common stock....	0	120,000	120,000	
Net cash provided by (used in) financing activities................	(2,027,032)	(1,350,573)	4,266,680	4,366,381
Net Increase (Decrease) in Cash.........	(62,751)	14,279	(31,406)	(11,666)
Cash, Beginning of Year.................	69,979	7,228	7,228	21,507
Cash, End of Year.......................	$ 7,228	$ 21,507	(24,178)	9,841
Supplemental Disclosure of Cash Flow Information:				
Cash paid during the year for:				
Interest............................	$ 977,000	$ 864,134	$ 660,753	$ 543,089
Income taxes........................	$ 4,900	$ 11,046	$ 0	$ 85,000
Supplemental Schedule of Noncash Operating, Investing and Financing Activities: Acquisition of equipment financed through capital lease obligation...........................	$ 8,953	$ 0	$ 0	$ 0
Conversion of portion of accrued guaranteed fees to a note payable (Note 4).............................	$ 53,836	$ 0	$ 0	$ 0

The accompanying notes are an integral part of this statement.

AMERICAN ACADEMIC SUPPLIERS HOLDING CORPORATION

AND SUBSIDIARY

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1--NATURE OF ACTIVITIES AND SIGNIFICANT ACCOUNTING POLICIES:

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

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

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

In the opinion of management, the Company has made all adjustments consisting only of normal recurring accruals, necessary for a fair presentation

of the financial condition of the Company as of September 30, 1997 and the results of its operations and its cash flows for the nine months ended September 30, 1996 and 1997, as presented in the accompanying unaudited interim financial statements.

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

A summary of significant accounting policies is as follows:

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

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

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

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

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

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

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

NOTE 2--PROPERTY, PLANT AND EQUIPMENT:

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

	1995	1996
Land	$ 415,000	$ 415,000
Buildings	2,333,828	2,335,258
Warehouse equipment	603,590	638,976

Office furniture and equipment	249,060	255,613
Computer equipment	173,285	245,223
Total owned assets	3,774,763	3,890,070
Equipment capitalized under lease obligation	8,953	8,953
	3,783,716	3,899,023
Less accumulated depreciation	(701,932)	(950,023)
	$3,081,784	$2,949,000

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

NOTE 3--OTHER CURRENT LIABILITIES AND ACCRUED EXPENSES:

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

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

NOTE 4--LONG-TERM DEBT:

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

	1995	1996
Borrowings from Harris Trust and Savings Bank ("Harris") pursuant to a Credit Agreement ("Agreement") (see below):		
Revolving credit loan borrowings	$5,787,922	$4,481,987
Term loan borrowings	521,422	467,231
Mortgage note payable to Harris Bank Barrington, N.A. (secured by real estate occupied by the Company; payable in monthly installments, inclusive of interest at prime plus 1 1/2%, of $16,600; final maturity on December 16, 1999. Fully paid subsequent to year-end)	1,510,032	1,456,917
Promissory note payable to Pfingsten Executive Fund, L.P. (bearing interest at 10% per annum; paid in full during 1996)	53,836	0
Capitalized lease obligation (payable in monthly installments of		

$291, inclusive of interest at 10%; final maturity June 7, 1998)	7,648	4,152
	7,880,860	6,410,287
Less current portion	168,673	3,135
Long-term portion, due in 1998	$7,712,187	$6,407,152

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

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

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

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

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

NOTE 4--LONG-TERM DEBT: (CONTINUED)

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

NOTE 5--INCOME TAXES:

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

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

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

property, plant and equipment.

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

	1995	1996
Gross deferred tax asset	$ 828,000	$ 262,000
Less valuation allowance	517,000	84,000
Deferred tax asset, net of valuation allowance	311,000	178,000
Less deferred tax liability	311,000	178,000
	$ 0	$ 0

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

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

NOTE 6--EMPLOYEE BENEFIT PLAN:

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

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

NOTE 7--LEASES:

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

NOTE 7--LEASES: (CONTINUED)

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

1997	$ 258,000
1998	73,000

$ 331,000

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

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

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

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

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

NOTE 9--SEVERANCE AGREEMENTS:

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

NOTE 10--SUBSEQUENT EVENT (UNAUDITED):

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

REPORT OF INDEPENDENT ACCOUNTANTS

To the Board of Directors

of Sax Arts and Crafts, Inc.

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

PRICE WATERHOUSE LLP
Minneapolis, Minnesota

February 3, 1998

SAX ARTS AND CRAFTS, INC.

BALANCE SHEETS

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

See accompanying notes to financial statements.

SAX ARTS AND CRAFTS, INC.

STATEMENTS OF OPERATIONS

YEAR ENDED	SIX MONTHS ENDED

	DECEMBER 17, 1994	DECEMBER 16, 1995	DECEMBER 25, 1996	JUNE 30, 1996	JUNE 29, 1997
				(UNAUDITED)	
Net sales...............	$ 29,169,879	$ 33,239,883	$ 34,350,947	$11,125,967	$13,009,456
Cost of sales...........	16,369,453	19,029,918	20,078,806	6,562,838	8,286,522
Gross profit........	12,800,426	14,209,965	14,272,141	4,563,129	4,722,934
Selling, administrative and other expenses....	8,401,463	9,169,667	9,734,256	4,379,178	4,427,608
Operating earnings..	4,398,963	5,040,298	4,537,885	183,951	295,326
Other income (expense), net....................	(510,508)	(545,302)	(476,886)	(222,759)	(52,971)
Earnings before income taxes.................	3,888,455	4,494,996	4,060,999	(38,808)	242,355
Income taxes............	1,502,315	1,738,191	1,568,733	(14,351)	95,730
Net earnings (loss).....	$ 2,386,140	$ 2,756,805	$ 2,492,266	$ (24,457)	$ 146,625

See accompanying notes to financial statements.

SAX ARTS AND CRAFTS, INC.

STATEMENTS OF SHAREHOLDER'S EQUITY

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

See accompanying notes to financial statements.

SAX ARTS AND CRAFTS, INC.
STATEMENTS OF CASH FLOWS

YEAR ENDED			SIX MONTHS ENDED	
DECEMBER 17, 1994	DECEMBER 16, 1995	DECEMBER 25, 1996	JUNE 30, 1996	JUNE 29, 1997
			(UNAUDITED)	

Cash flows from operating activities:					
Net earnings (loss)	$ 2,386,140	$ 2,756,805	$ 2,492,266	$ (24,457)	$ 146,625
Adjustments to reconcile net earnings (loss) to cash provided by operating activities:					
Depreciation and amortization	327,489	340,556	371,516	178,529	153,891
Deferred income taxes	599	(30,302)	(26,054)	--	--
Gain on disposal of fixed assets	(5,350)	(21,505)	(6,578)	(6,205)	(23,234)
Impact on cash flow from changes in working capital:					
Accounts receivable	(185,934)	(734,239)	273,187	1,403,353	268,666
Inventory	(659,936)	144	149,893	(2,287,194)	(1,703,552)
Other current assets	(632,521)	(56,442)	427,202	(109,614)	(317,726)
Accounts payable	155,519	2,590,011	(2,262,760)	(2,172,326)	1,455,174
Affiliates payable	942,481	(2,521,286)	(1,405,828)	2,927,060	1,323,851
Accrued expenses	(212,673)	656,493	133,894	27,125	(1,340,457)
Net cash provided by (used in) operating activities	2,115,814	2,980,235	146,738	(63,729)	(36,762)
Cash flows from investing activities:					
Purchased property, plant and equipment	(196,752)	(473,305)	(157,695)	(9,789)	(27,006)
Proceeds from sales of assets	5,350	21,505	6,578	11,450	58,820
Increase in other assets	--	--	15,971	15,971	--
Net cash provided by (used in) investing activities	(191,402)	(451,800)	(135,146)	17,632	31,814
Cash flows from financing activities:					
Dividend payment	(2,400,000)	(2,500,000)	--	--	--
Net cash used in financing activities	(2,400,000)	(2,500,000)	--	--	--
Net increase (decrease) in cash	(475,588)	28,435	11,592	(46,097)	(4,948)
Cash at beginning of period	550,053	74,465	102,900	102,900	114,492
Cash at end of period	$ 74,465	$ 102,900	$ 114,492	$ 56,803	$ 109,544
Supplemental disclosures of cash flow information:					
Cash paid for interest	$ 91,585	$ 390	$ --	$ --	$ 23
Cash paid for taxes	$ 1,540,000	$ 1,480,000	$ 1,780,000	$ 141,000	$ 95,000

See accompanying notes to financial statements.

SAX ARTS AND CRAFTS, INC.

NOTES TO FINANCIAL STATEMENTS

1. ORGANIZATION AND OPERATIONS

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

FISCAL YEAR

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

UNAUDITED INTERIM FINANCIAL STATEMENTS

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

June 29, 1997, as presented in the accompanying unaudited interim financial statements.

USE OF ESTIMATES

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

REVENUE RECOGNITION

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

CONCENTRATION OF CREDIT RISK

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)
INCOME TAXES

The Company is part of a consolidated tax group with its Parent. For purposes of these financial statements, income taxes have been provided as if the Company filed a separate tax return. Income taxes are calculated in accordance with the liability method of accounting for income taxes as provided by Statement of Financial Accounting Standards No. 109, "Accounting for Income Taxes." Deferred taxes are provided on temporary differences between book and tax basis of assets and liabilities which will have a future impact on taxable income.

3. INVENTORIES

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

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

4. PROPERTY, PLANT AND EQUIPMENT

The major classes are:

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

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

5. INCOME TAXES

The income tax provision consists of the following components:

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

Deferred tax assets (liabilities) consist of the following:

	DECEMBER 16, 1995	DECEMBER 25, 1996
Accruals	$ 58,944	$ 64,186
Asset reserves	12,585	19,693
Inventories	17,370	15,610
Pension	41,828	39,066
Gross deferred tax assets	130,727	138,555

Depreciation	(172,983)	(154,757)
Gross deferred tax liabilities	(172,983)	(154,757)
Net deferred tax liability	$ (42,256)	$ (16,202)

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

	DECEMBER 17, 1994	DECEMBER 16, 1995	DECEMBER 25, 1996
U.S. federal statutory tax rate	34.0%	34.0%	34.0%
Non-deductible expenses	0.1	0.2	0.1
State income taxes, net of federal benefit	5.5	5.5	5.5
Other	(1.0)	(1.0)	(1.0)
	38.6%	38.7%	38.6%

6. RELATED PARTY TRANSACTIONS

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

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

The Company has the following affiliated receivables and payables:

	DECEMBER 16, 1995	DECEMBER 25, 1996
Receivable from:		
Day-Timers Canada	$ 11,054	$ 186,581
Fortune Brands	--	648,932
Total	$ 11,054	$ 835,513

Payable to:		
ACCO	$ (2,089,941)	$ (2,618,265)
Parent	(21,202)	(23,893)
Fortune Brands	(1,112,384)	--
Total	$ (3,223,527)	$ (2,642,158)

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

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

7. LEASE COMMITMENTS

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

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

8. RETIREMENT PLAN

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

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

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

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

8. RETIREMENT PLAN (CONTINUED)

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

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

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

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

9. OTHER POSTRETIREMENT PLAN

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

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

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

UNDERWRITING

Subject to the terms and conditions of the Underwriting Agreement, the Company has agreed to sell to each of the Underwriters named below, and each of such Underwriters has severally agreed to purchase from the Company the respective number of shares of Common Stock set forth opposite its name below:

UNDERWRITERS	NUMBER OF SHARES OF COMMON STOCK
Goldman, Sachs & Co.	
NationsBanc Montgomery Securities LLC	
Smith Barney Inc.	
Piper Jaffray Inc.	
Total	2,125,000

Under the terms and conditions of the Underwriting Agreement, the Underwriters are committed to take and pay for all of the shares offered hereby, if any are taken.

The Underwriters propose to offer the shares of Common Stock in part directly to the public at the initial public offering price set forth on the cover page of this Prospectus and in part to certain securities dealers at such price less a concession of $ per share. The Underwriters may allow, and such dealers may reallow, a concession not in excess of $ per share to certain brokers and dealers. After the shares of Common Stock are released for sale to the public, the offering price and other selling terms may from time to time be varied by the Underwriters.

The Company has granted the Underwriters an option exercisable for 30 days after the date of this Prospectus to purchase up to an aggregate of 318,750 additional shares of Common Stock solely to cover over-allotments, if any. If the Underwriters exercise their over-allotment option, the Underwriters have severally agreed, subject to certain conditions, to purchase approximately the same percentage thereof that the number of shares to be purchased by each of them, as shown in the foregoing table, bears to the 2,125,000 shares of Common Stock offered.

The Company and certain of its directors and executive officers who will hold an aggregate of 114,355 shares of Common Stock have agreed that, during the period beginning from the date of this Prospectus and continuing to and including the date 180 days after the date of this Prospectus, it will not offer, sell, contract to sell or otherwise dispose of any securities of the Company (other than pursuant to employee stock option plans existing, or on the conversion or exchange of convertible or exchangeable securities outstanding, on the date of this Prospectus) which are substantially similar to the shares of Common Stock of which are convertible into or exchangeable for securities which are substantially similar to the shares of Common Stock without the prior written consent of the Underwriters, except for the shares of Common Stock offered in connection with the offering.

More than 10% of the net proceeds of the Offering are expected to be paid to NationsBank, N.A., an affiliate of NationsBanc Montgomery Securities LLC, one of the Underwriters. Accordingly, this Offering is being conducted pursuant to the requirements of Rules 2710(c)(8) and 2720(c)(3) of the Conduct Rules of the National Association of Securities Dealers, Inc., which provide that the initial public offering price can be no higher than that recommended by a "qualified independent underwriter" meeting certain standards. In accordance with this requirement, Goldman, Sachs & Co. has served in such role and has recommended a price in compliance with the requirements of Rule 2720(c)(3). Goldman, Sachs & Co. will receive compensation from the Company in the amount of $10,000 for serving in such role. In connection with the Offering, Goldman, Sachs & Co. in its role as qualified independent underwriter has performed due diligence investigations and reviewed and participated in the preparation of this Prospectus and the Registration Statement of which this Prospectus forms a part. In addition, the Underwriters

may not confirm sales to any discretionary account without the prior specific written approval of the customer.

In connection with the offering, the Underwriters may purchase and sell the Common Stock in the open market. These transactions may include over-allotment and stabilizing transactions and purchases to cover short positions created by the Underwriters in connection with the offering. Stabilizing transactions consist of certain bids or purchases for the purpose of preventing or retarding a decline in the market price of the Common Stock; and short positions created by the Underwriters involve the sale by the Underwriters of a greater number of shares of Common Stock than they are required to purchase from the Company in the Offering. The Underwriters also may impose a penalty bid, whereby selling concessions allowed to broker-dealers in respect of the securities sold in the Offering may be reclaimed by the Underwriters if such securities are repurchased by the Underwriters in stabilizing or covering transactions. These activities may stabilize, maintain or otherwise affect the market price of the Common Stock, which may be higher than the price that might otherwise prevail in the open market; and these activities, if commenced, may be discontinued at any time. These transactions may be effected on the Nasdaq National Market, in the over-the-counter market or otherwise.

Prior to this offering, there has been no public market for the shares. The initial public offering price will be negotiated among the Company and the Underwriters. Among the factors to be considered in determining the initial public offering price of the Common Stock, in addition to prevailing market conditions, will be the Company's historical performance, estimates of the business potential and earnings prospects of the Company, an assessment of the Company's management and the consideration of the above factors in relation to

market valuation of companies in related businesses.

In addition to the 2,125,000 shares of Common Stock offered by the Underwriters, School Specialty is selling 250,000 shares of Common Stock directly to Daniel P. Spalding, its Chairman and Chief Executive Officer, David J. Vander Zanden, its President and Chief Operating Officer, and Donald Ray Pate, Jr., its Executive Vice President for Re-Print. The Underwriters will not participate in, or receive any discount or commission on, the sale of such shares being sold by School Specialty directly.

The Common Stock will be quoted on the Nasdaq National Market under the symbol "ABCZ".

The Company has agreed to indemnify the several Underwriters against certain liabilities, including liabilities under the Securities Act of 1933.

NO PERSON IS AUTHORIZED TO GIVE ANY INFORMATION OR TO MAKE ANY REPRESENTATIONS OTHER THAN THOSE CONTAINED IN THIS PROSPECTUS, AND, IF GIVEN OR MADE, SUCH INFORMATION OR REPRESENTATIONS MUST NOT BE RELIED UPON AS HAVING BEEN AUTHORIZED. THIS PROSPECTUS DOES NOT CONSTITUTE AN OFFER TO SELL OR THE SOLICITATION OF AN OFFER TO BUY ANY SECURITIES OTHER THAN THE SECURITIES TO WHICH IT RELATES OR AN OFFER TO SELL OR THE SOLICITATION OF AN OFFER TO BUY SUCH SECURITIES IN ANY CIRCUMSTANCES IN WHICH SUCH OFFER OR SOLICITATION IS UNLAWFUL. NEITHER THE DELIVERY OF THIS PROSPECTUS NOR ANY SALE MADE HEREUNDER SHALL, UNDER ANY CIRCUMSTANCES, CREATE ANY IMPLICATION THAT THERE HAS BEEN NO CHANGE IN THE AFFAIRS OF THE COMPANY SINCE THE DATE HEREOF OR THAT THE INFORMATION CONTAINED HEREIN IS CORRECT AS OF ANY TIME SUBSEQUENT TO ITS DATE.

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THROUGH AND INCLUDING , 1998 (THE 25TH DAY AFTER THE DATE OF THIS PROSPECTUS), ALL DEALERS EFFECTING TRANSACTIONS IN THE COMMON STOCK, WHETHER OR NOT PARTICIPATING IN THIS DISTRIBUTION, MAY BE REQUIRED TO DELIVER A PROSPECTUS. THIS IS IN ADDITION TO THE OBLIGATION OF DEALERS TO DELIVER A PROSPECTUS WHEN ACTING AS UNDERWRITERS AND WITH RESPECT TO THEIR UNSOLD ALLOTMENTS OR SUBSCRIPTIONS.

2,125,000 SHARES

SCHOOL SPECIALTY, INC.

COMMON STOCK

(PAR VALUE $.001 PER SHARE)

[LOGO]

GOLDMAN, SACHS & CO.

NATIONSBANC MONTGOMERY SECURITIES LLC

SALOMON SMITH BARNEY

PIPER JAFFRAY INC.

PART II
INFORMATION NOT REQUIRED IN PROSPECTUS

ITEM 13. OTHER EXPENSES OF ISSUANCE AND DISTRIBUTION

The following table sets forth the fees and expenses payable by School Specialty in connection with the issuance and distribution of the securities. All of such expenses except the Securities and Exchange Commission registration fee are estimated:

SEC Registration	$ 14,750
National Association of Securities Dealers, Inc. Filing Fee	$ 5,500
Nasdaq Listing Fee	$ 47,500
Transfer Agents Fees and Expenses	$ 75,000
Legal Fees and Expenses	$ 500,000
Accounting Fees and Expenses	$ 500,000
Printing Fees and Expenses	$ 350,000
Blue Sky Fees and Expenses	$ 5,000
Miscellaneous	$ 2,250
Total	$1,500,000

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* To be supplied by amendment.

ITEM 14. INDEMNIFICATION OF DIRECTORS AND OFFICERS

Article Nine of School Specialty's Certificate of Incorporation provides that School Specialty shall indemnify its directors and officers to the fullest extent permitted by the General Corporation Law of the State of Delaware.

Section 145 of the General Corporation Law of the State of Delaware permits a corporation, under specified circumstances, to indemnify its directors, officers, employees or agents against expenses (including attorney's fees), judgments, fines and amounts paid in settlements actually and reasonably incurred by them in connection with any action, suit or proceeding brought by third parties by reason of the fact that they were or are directors, officers, employees or agents of the corporation, if such directors, officers, employees or agents acted in good faith and in a manner they reasonably believed to be in or not opposed to the best interests of the corporation and, with respect to any criminal action or proceeding, had no reason to believe their conduct was unlawful. In a derivative action, i.e., one by or in the right of the corporation, indemnification may be made only for expenses actually and reasonably incurred by directors, officers, employees or agents in connection with the defense or settlement of an action or suit, and only with respect to a matter as to which they shall have acted in good faith and in a manner they reasonably believed to be in or not opposed to the best interests of the corporation, except that no indemnification shall be made if such person shall have been adjudged liable to the corporation, unless and only to the extent that the court in which the action or suit was brought shall determine upon application that the defendant directors, officers, employees or agents are fairly and reasonably entitled to indemnity for such expenses despite such adjudication of liability.

Article Eight of School Specialty's Certificate of Incorporation states that directors of School Specialty will not be liable to School Specialty or its stockholders for monetary damages for any breach of fiduciary duty as a director, except for liability (i) for any breach of the director's duty of loyalty to School Specialty or its stockholders, (ii) for acts or omissions not in good faith or which involve intentional misconduct or a knowing violation of law, (iii) under Section 174 of the General Corporation Law of the State of Delaware, which makes directors liable for unlawful dividends or unlawful stock repurchases or redemptions or (iv) for any transaction from which the director derived an improper personal benefit.

Article IV of School Specialty's Bylaws provides that School Specialty shall indemnify its officers and directors (and those serving at the request of School Specialty as an officer or director of another corporation, partnership, joint venture, trust or other enterprise), and may indemnify its employees and agents (and those serving at the request of School Specialty as an employee or agent of another corporation, partnership, joint venture, trust or other enterprise), against expenses (including attorneys' fees), judgments, fines and amounts paid in settlement actually and reasonably incurred, if such officer, director, employee or agent acted in good faith and in a manner reasonably believed to be in or not opposed to the best interests of School Specialty, and, with respect to any criminal action or proceeding, had no reasonable cause to believe his conduct was unlawful. In a derivative action, indemnification shall be limited to expenses (including attorneys' fees) actually and reasonably incurred by such officer, director, employee or agent in the defense or settlement of such action or suit, and no indemnification shall be made in respect of any claim, issue or matter as to which such person shall have been adjudged to be liable to School Specialty unless and only to the extent that the Delaware Court of Chancery or the court in which such action or suit was brought shall determine upon application that, despite the adjudication of liability but in view of all the circumstances of the case, such person is fairly and reasonably entitled to

indemnity for such expenses which the Delaware Court of Chancery or such other court shall deem proper.

Unless the Board of Directors of School Specialty otherwise determines in a specific case, expenses incurred by an officer or director in defending a civil or criminal action, suit or proceeding shall be paid by School Specialty in advance of the final disposition of such action, suit or proceeding upon receipt of an undertaking by or on behalf of the officer or director to repay such amount if it shall ultimately be determined that he is not entitled to be indemnified by School Specialty.

ITEM 15. RECENT SALES OF UNREGISTERED SECURITIES

None.

ITEM 16. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

See index to exhibits.

ITEM 17. UNDERTAKINGS.

The undersigned Registrant hereby undertakes to provide to the Underwriters at the closing or closings specified in the Underwriting Agreement, certificates in such denominations and registered in such names as required by the Underwriters to permit prompt delivery to each purchaser.

The undersigned Registrant hereby further undertakes that:

(1) For purposes of determining any liability under the Securities Act of 1933, the information omitted from the form of prospectus filed as part of this registration statement in reliance upon Rule 430A and contained in a form of prospectus filed by the registrant pursuant to Rule 424(b)(1) or (4) or 497(b) under the Securities Act shall be deemed to be part of this registration statement as of the time it was declared effective.

(2) For the purpose of determining any liability under the Securities Act of 1933, each post-effective amendment that contains a form of prospectus shall be deemed to be a new registration statement relating to the securities offered therein, and the offering of such securities at that time shall be deemed to be the initial BONA FIDE offering thereof.

Insofar as indemnification for liabilities arising under the Securities Act of 1933 may be permitted to directors, officers and controlling persons of the registrant pursuant to the provisions described in Item 14, or otherwise, the registrant has been advised that in the opinion of the Securities and Exchange Commission such indemnification is against public policy as expressed in the Act and is, therefore,

unenforceable. In the event that a claim for indemnification against such liabilities (other than the payment by the registrant of expenses incurred or paid by a director, officer or controlling person of the registrant in the successful defense of any action, suit or proceeding) is asserted by such director, officer or controlling person in connection with the securities being registered, the registrant will, unless in the opinion of its counsel the matter has been settled by controlling precedent, submit to a court of appropriate jurisdiction the question whether such indemnification by it is against public policy as expressed in the Act and will be governed by the final adjudication of such issue.

SIGNATURES

Pursuant to the requirements of the Securities Act of 1933, as amended, the registrant has duly caused this Amendment No. 2 to the Registration Statement to

be signed on its behalf by the undersigned, thereunto duly authorized in Appleton, Wisconsin, on May 14, 1998.

SCHOOL SPECIALTY, INC.

By: /s/ DANIEL P. SPALDING
Name: Daniel P. Spalding
Title: Chief Executive Officer

Pursuant to the requirements of the Securities Act of 1933, as amended, this Amendment No. 2 to the Registration Statement has been signed by the following persons in the capacities and on the dates indicated.

SIGNATURE	CAPACITY	DATE
/s/ DANIEL P. SPALDING Daniel P. Spalding	Chief Executive Officer (Principal Executive Officer); Director	May 14, 1998
/s/ DONALD J. NOSKOWIAK Donald J. Noskowiak	Chief Financial Officer (Principal Financial and Accounting Officer)	May 14, 1998

EXHIBIT INDEX

EXHIBIT	DESCRIPTION
1.1***	Form of Underwriting Agreement
3.1***	Amended and Restated Certificate of Incorporation
3.2***	Bylaws
4.1***	Form of certificate representing shares of Common Stock
5***	Opinion of Wilmer, Cutler & Pickering as to legality of securities being offered
8***	Tax opinion of Wilmer, Cutler & Pickering
10.1*	Form of Distribution Agreement among U.S. Office Products Company, Workflow Management, Inc., Aztec Technology Partners Inc., Navigant International Inc., and School Specialty, Inc.
10.2***	Form of Tax Allocation Agreement among U.S. Office Products Company, Workflow Management, Inc., Aztec Technology Partners, Inc., Navigant International, Inc., and School Specialty, Inc.
10.3*	Tax Indemnification Agreement among Workflow Management, Inc., Aztec Technology Partners, Inc., Navigant International, Inc., and School Specialty, Inc.
10.4*	Employee Benefits Agreement among Workflow Management, Inc., Aztec Technology Partners, Inc., Navigant International, Inc., and School Specialty, Inc.
10.5+	Employment Agreement dated April 29, 1996, between Daniel P. Spalding and School Specialty, Inc.
10.6+	Employment Agreement dated July 26, 1996, between Donald Ray Pate, Jr. and The Re-Print Corp.
10.7+	Employment Agreement dated June 27, 1997, between Richard H. Nagel and Sax Arts & Crafts, Inc.
10.8***	Agreement dated as of January 13, 1998 between U.S. Office Products and Jonathan J. Ledecky
10.9***	Form of Employment Agreement between David J. Vander Zanden and School Specialty, Inc.
21*	Subsidiaries of Registrant
23.1***	Consent of Wilmer, Cutler & Pickering contained in Exhibits 5 and 8 hereto
23.2*	Consent of Price Waterhouse, LLP
23.3*	Consent of Ernst & Young, LLP
23.4*	Consent of BDO Seidman, LLP

23.5*	Consent of Altschuler, Melvoin and Glasser LLP
23.6*	Consent of Price Waterhouse, LLP
23.7**	Consent of David J. Vander Zanden to be named as director
23.8**	Consent of Jonathan J. Ledecky to be named as director
23.9**	Consent of Leo C. McKenna to be named as director
23.10**	Consent of Rochelle Lamm Wallach to be named as director
27.*	Financial data schedule
99.1*	Valuation and qualifying accounts and reserves.

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* Filed herewith.

** Previously filed.

*** To be filed by amendment.

\+ Incorporated by reference herein from School Specialty's Registration Statement on Form S-1 initially filed with the Securities and Exchange Commission on February 19, 1998 (File No. 333-46359).

AGREEMENT

AND

PLAN OF DISTRIBUTION

Dated as of May __, 1998

between

U.S. Office Products Company,

Workflow Management, Inc.,

School Specialty, Inc.,

Aztec Technology Partners, Inc.

and

Navigant International, Inc.

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AGREEMENT AND PLAN OF DISTRIBUTION

AGREEMENT AND PLAN OF DISTRIBUTION dated as of May __, 1998, between U.S. OFFICE PRODUCTS COMPANY, a Delaware corporation (the "Company"), WORKFLOW MANAGEMENT, INC., a Delaware corporation and wholly owned subsidiary of the Company ("Printco"), SCHOOL SPECIALTY, INC., a Delaware corporation and wholly owned subsidiary of the Company ("Schoolco"), AZTEC TECHNOLOGY PARTNERS, INC., a Delaware corporation and wholly owned subsidiary of the Company ("Techco"), and NAVIGANT INTERNATIONAL, INC., a Delaware corporation and wholly owned subsidiary of the Company ("Travelco"). Certain capitalized terms used herein without definition have the meanings specified in Section 1.01.

W I T N E S S E T H:

WHEREAS the Board of Directors of the Company has approved the form, terms and provisions of this Agreement, pursuant to which and subject to the terms of which (a) the Company will distribute all the issued and outstanding shares of common stock of the Distributed Companies held by the Company (as to the shares of each Distributed Company, the "Printco Common Shares," the "Schoolco Common Shares," the "Techco Common Shares," and the "Travelco Common Shares") to the holders of record of shares of common stock of the Company (the "Company Common Stock"), other than shares held in the treasury of the Company, (b) each Distributed Company will assume entirely such Distributed Company's Liabilities and other liabilities specified herein, (c) each Distributed Company will agree to indemnify the Company and hold it harmless from and against its Pro Rata Share of certain Shared Liabilities and (d) certain other transactions will be consummated, all as set forth in Article II hereof (the "Preliminary Transactions");

WHEREAS the purpose of the Preliminary Transactions and the Distributions is to divest the Company of all businesses, operations and Liabilities other than the Retained Business, Retained Assets and Retained Liabilities of the Company and its Subsidiaries;

WHEREAS it is the intention of the parties to this Agreement that for U.S. federal income tax purposes the Distributions shall qualify as tax-free spin-offs under Section 355 of the Code and shall not be taxable under Section 355(e) of the Code; and

WHEREAS in order to effect the separation of ownership of the Company and the Distributed Companies, this Agreement sets forth the principal corporate transactions required to effect the Preliminary Transactions and the Distributions and sets forth other agreements that will govern certain other matters following the Distributions.

NOW, THEREFORE, in consideration of the premises, and of the covenants and agreements set forth herein, the parties hereto hereby agree as follows:

ARTICLE I
DEFINITIONS

SECTION 1.01 General. As used in this Agreement, the following terms shall have the following meanings (such meanings to be equally applicable to both the singular and plural forms of the terms defined):

"AAA" shall mean the American Arbitration Association.

"Acquisition Agreement" shall mean each of the merger, stock purchase, asset purchase or other acquisition agreements pursuant to which certain of the Distributed Company Subsidiaries were acquired by the Company or any of its Subsidiaries prior to the Distributions.

"Acquisition Claim" shall mean any and all rights or claims that the Company or any of its Subsidiaries may have against the sellers of the Distributed Company Subsidiaries under any of the Acquisition Agreements.

"Action" shall mean any action, suit, arbitration, inquiry, proceeding or investigation by or before any court, any governmental or other regulatory or administrative agency, body or commission or any arbitration tribunal.

"Affiliate" shall mean, when used with respect to a specified Person, another Person that directly, or indirectly through one or more intermediaries, controls or is controlled by or is under common control with the Person specified.

"Agent" shall mean American Stock Transfer & Trust Company, as transfer agent for the Company.

"Ancillary Agreements" shall mean the Employee Benefits Agreement, the Tax Allocation Agreement, the Imagenet Licensing Agreement and the Lead Generation System Licensing Agreement.

"Assets" shall mean any and all assets, properties and rights, whether tangible or intangible, whether real, personal or mixed, whether fixed, contingent or otherwise, and wherever located, including, without limitation, the following:

(i) real property interests (including leases), land, plants, buildings and improvements;

(ii) machinery, equipment, tooling, vehicles, furniture and fixtures, leasehold improvements, repair parts, tools, plant, and office equipment and other tangible personal property, together with any rights or claims arising

out of the breach of any express or implied warranty by the manufacturers or sellers of any of such assets or any component part thereof;

(iii) inventories, including raw materials, work-in-process, finished goods, parts, accessories and supplies;

(iv) cash, bank accounts, notes, loans and accounts receivable (whether current or not current), interests as beneficiary under letters of credit, advances and performance and surety bonds;

(v) certificates of deposit, banker's acceptances, shares of stock, bonds, debentures, evidences of indebtedness, certificates of interest or participation in profit-sharing agreements, collateral-trust certificates, preorganization certificates or subscriptions, transferable shares, investment contracts, voting-trust certificates, puts, calls, straddles, options, swaps, collars, caps and other securities or hedging arrangements of any kind;

(vi) financial, accounting and operating data and records including, without limitation, books, records, notes, sales and sales promotional data, advertising materials, credit information, cost and pricing information, customer and supplier lists, reference catalogs, payroll and personnel records, minute books, stock ledgers, stock transfer records and other similar property, rights and information;

(vii) patents, patent applications, trademarks, trademark applications and registrations, trade names, service marks, service mark applications and registrations, service names, copyrights and copyright applications and registrations, commercial and technical information including engineering, production and other designs, drawings, specifications, formulae, technology, computer and electronic data processing programs and software, inventions, processes, trade secrets, know-how, confidential information and other proprietary property, rights and interest and all rights thereto;

(viii) agreements, leases, contracts, sale orders, purchase orders, open bids and other commitments and all rights therein;

(ix) prepaid expenses, deposits and retentions held by third parties;

(x) claims, causes of action, choses in action, rights under insurance policies, rights under express or implied warranties, rights of recovery, rights of set-off, rights of subrogation and all other rights of any kind;

(xi) licenses, franchises, permits, authorizations and approvals; and

(xii) goodwill and going concern value.

"Assignee" shall have the meaning set forth in Section 2.07.

"Assignor" shall have the meaning set forth in Section 2.07.

"CDR-PC" shall mean CDR-PC Acquisition, L.L.C., a Delaware limited liability company.

"Code" shall mean the Internal Revenue Code of 1986, as amended, and the Treasury regulations promulgated thereunder, including any successor legislation.

"Company" shall have the meaning set forth in the heading of this Agreement.

"Company Debt" shall mean all Liabilities of the Company and its Subsidiaries under or arising out of the Credit Agreement, dated as of August 21, 1996, among the Company, various lending institutions and Bankers Trust Company, as agent.

"Company Common Stock" shall have the meaning set forth in the recitals to this Agreement.

"Company Indemnitees" shall mean the Company, each Affiliate of the Company after the Distribution Date, Clayton, Dubilier & Rice, Inc., CDR-PC, Clayton, Dubilier & Rice Fund V Limited Partnership, CD&R Associates V Limited Partnership, each of their respective partners, members, directors, officers, employees and agents and each of the heirs, executors, successors and assigns of any of the foregoing.

"Company Transaction Costs" shall mean Transaction Costs incurred by the Company in connection with the Transactions.

"Conveyancing and Assumption Instruments" shall have the meaning set forth in Section 2.04.

"Conveyancing Instruments" shall have the meaning set forth in Section 2.04.

"Covered Claims" shall mean those Liabilities that, individually or in the aggregate, and if reported timely, are covered within the terms and conditions of any Policy in the Insurance Program.

"Defaulted Payment Obligation" shall have the meaning set forth in Section 5.09.

"Dispute" shall have the meaning set forth in Section 9.01.

"Distributed Companies" shall mean Printco, Schoolco, Techco and Travelco.

"Distributed Companies' Assets" shall mean the Printco Assets, the Schoolco Assets, the Techco Assets and the Travelco Assets.

"Distributed Companies' Businesses" shall mean the Printco Business, the Schoolco Business, the Techco Business and the Travelco Business.

"Distributed Companies' Indemnitees" shall mean the Printco Indemnitees, the Schoolco Indemnitees, the Techco Indemnitees and the Travelco Indemnitees.

"Distributed Companies' Liabilities" shall mean the Printco Liabilities, the Schoolco Liabilities, the Techco Liabilities and the Travelco Liabilities.

"Distributed Company Subsidiaries" shall mean the Printco Subsidiaries, the Schoolco Subsidiaries, the Techco Subsidiaries and the Travelco Subsidiaries.

"Distributed Company Transaction Costs" shall mean, as to any Distributed Company, the Transaction Costs incurred by such Distributed Company or the Company that relate to such Distributed Company's IPO or credit facilities described in Section 2.08.

"Distribution Date" shall mean such date as hereafter may be determined by the Company's Board of Directors as the date as of which the Distributions shall be effected.

"Distribution Record Date" shall mean such date as hereafter may be determined by the Company's Board of Directors as the record date for the Distributions.

"Distribution Shares" shall mean the Printco Common Shares, the Schoolco Common Shares, the Techco Common Shares and the Travelco Common Shares.

"Distribution Time" shall mean 11:59 P.M. (Eastern time) on the Distribution Date.

"Distributions" shall mean the distributions on the Distribution Date to holders of record of shares of Company Common Stock, as of the Distribution Record Date, other than shares held in the treasury of the Company, of (i) all the Printco Common Shares on the basis of one Printco Common Share for each   outstanding shares of Company Common Stock, (ii) all the Schoolco Common Shares on the basis of one Schoolco Common Share for each   outstanding shares of Company Common Stock, (iii) all the Techco Common Shares on the basis of one Techco Common Share for each   outstanding shares of Company Common Stock, and (iv) all the Travelco Common Shares on the basis of one Travelco Common Share for each   outstanding shares of Company Common Stock.

"Earn-Out Payment Liability" shall mean any contingent cash payment required to be made after the Distribution Date by the Company or any of its Subsidiaries to sellers of certain Distributed Company Subsidiaries or Retained Subsidiaries under circumstances that may arise under the Acquisition Agreements.

"Employee Benefits Agreement" shall mean the Employee Benefits Agreement between the Company and the Distributed Companies substantially in the form of Exhibit I hereto.

"Exchange Act" shall mean the Securities Exchange Act of 1934, as amended.

"Guaranteed Liability" shall have the meaning set forth in Section 2.06.

"Guaranteed Party" shall have the meaning set forth in Section 2.06.

"Guarantor" shall have the meaning set forth in Section 2.06.

"Imagenet Licensing Agreement" shall have the meaning set forth in Schedule 2.11.

"Indemnifiable Losses" shall mean any and all losses, liabilities, claims, damages, demands, costs or expenses (including, without limitation, reasonable attorneys' and accountants' fees and expenses and any and all out-of-pocket expenses) arising from Third Party Claims or any Indemnifying Party's breach of its obligations under the Ancillary Agreements or this Agreement, including all losses, liabilities, claims, damages, demands, costs or expenses reasonably incurred in investigating, preparing for or defending against any Actions or potential Actions or in asserting, preserving or enforcing any rights hereunder (including, without limitation, rights under Article V) or under any Ancillary Agreement.

"Indemnifying Party" shall have the meaning set forth in Section 5.06.

"Indemnitee" shall have the meaning set forth in Section 5.06.

"Information" of a party shall mean any and all information that such party or any of its Representatives furnishes or has furnished to the receiving party or any of its Representatives whether furnished orally or in writing or by any other means or gathered by inspection and regardless of whether the same is specifically marked or designated as "confidential" or "proprietary," together with any and all notes, memoranda, analyses, compilations, studies or other documents (whether in hard copy or electronic media) prepared by the receiving party or any of its Representatives which contain or otherwise reflect such Information, together with any and all copies, extracts or other reproductions of any of the same; provided, however, that for the purposes hereof all information relating to the Distributed Companies, the Distributed Companies' Businesses or the Distributed

Companies' Assets in the possession of the Company at the Distribution Time shall be deemed to have been furnished by the related Distributed Company and all information relating to the Retained Business or the Retained Assets in the possession of the Distributed Companies or any of the Distributed Company Subsidiaries at the Distribution Time shall be deemed to have been furnished by the Company; provided further, however, that the term "Information" does not include information that:

(a) at the time of disclosure is generally available to and known by the public (other than as a result of a violation of this Agreement or any other confidentiality obligation, whether directly or indirectly, by a party to this Agreement or any of its Representatives);

(b) is available to the receiving party on a non-confidential basis from a source other than the providing party or its Representatives, provided that such source is not known by the receiving party to be subject to a confidentiality agreement regarding such information; or

(c) has been independently acquired or developed by the receiving party without violation of any of the obligations of the receiving party or its Representatives under this Agreement.

"Information Statements" shall mean the Information Statements/Prospectuses to be sent to the holders of shares of Company Common Stock, as of the Distribution Record Date, in connection with the Distributions, including any amendments or supplements thereto, which are included as exhibits to the registration statements on Forms S-1 filed by the Distributed Companies, as applicable, under the Securities Act.

"Insurance Program" shall mean, collectively, the series of policies pursuant to which various insurance carriers provide insurance coverage to the Company and its Affiliates in respect of claims or occurrences relating to, without limitation, property damage, bodily injury, business interruption, transit, fire, non-owned aircrafts, crime, fiduciary liability, general liability, products' liability, professional liability, automobile liability and employer's liability.

"Investment Agreement" shall mean the Investment Agreement, dated as of January 12, 1998, as amended, between the Company and CDR-PC, as the same may be amended from time to time.

"IPO" shall mean, as to any Distributed Company, the initial

public offering of securities to be conducted by such company, which offering is scheduled to occur on or about the Distribution Date.

"IPO Prospectus" shall mean, as to any Distributed Company, the Registration Statement/Prospectus prepared in connection with such Distributed Company's IPO.

"Lead Generation System Licensing Agreement" shall have the meaning set forth in Schedule 2.11.

"Liabilities" shall mean any and all debts, liabilities, obligations, claims, damages, fees, costs and expenses, absolute or contingent, matured or unmatured, liquidated or unliquidated, accrued or unaccrued, known or unknown, whenever arising, including, without limitation, those debts, liabilities, obligations, claims, damages, fees, costs and expenses, arising under any law, rule, regulation, Action, threatened Action, order or consent decree of any court, any governmental or other regulatory or administrative agency or commission or any award of any arbitration tribunal, and those arising under any contract, guarantee, commitment or undertaking.

"Mediation Period" shall have the meaning set forth in Section 9.03.

"MCI Agreement" shall mean the Special Customer Arrangement, effective as of November 15, 1997, by and between MCI Telecommunications Corporation and the Company.

"NASDAQ" shall mean the NASDAQ National Market System.

"Nonassignable Contract" shall have the meaning set forth in Section 2.07.

"Person" shall mean any natural person, corporation, trust, limited liability company, joint venture, association, company, partnership, entity, unincorporated organization or government, or any agency or political subdivision thereof.

"Pledged Shares" shall mean any Company Common Stock pledged or assigned to the Company as of the Distribution Date as collateral security by sellers of certain of the Distributed Company Subsidiaries under the Acquisition Agreements.

"Policies" shall mean insurance policies and insurance contracts of any kind (other than life and benefits policies or contracts), including, without limitation, primary, excess and umbrella policies, commercial general liability policies, fiduciary liability, automobile, aircraft, property and casualty, workers' compensation and employee dishonesty insurance policies, bonds and self-insurance and captive insurance company arrangements, together with the rights, benefits and privileges thereunder.

"Preliminary Transactions" shall have the meaning set forth in the recitals to this Agreement.

"Printco" shall have the meaning set forth in the heading of

this Agreement.

"Printco Acquisition Claims" shall mean any and all rights or claims that the Company or any of its Subsidiaries may have against the sellers of Printco and the Printco Subsidiaries under the Acquisition Agreements pursuant to which Printco and the Printco Subsidiaries were acquired by the Company or any of its Subsidiaries.

"Printco Assets" shall mean (a) the Assets of Printco and the Printco Subsidiaries and (b) the rights of Printco and the Printco Subsidiaries under this Agreement and the Ancillary Agreements; provided, however, that Printco Assets shall not include any claim of Printco against the Company relating to the payment of finders' fees or other compensation in respect of customers referred to the Company by Printco or the payment of rebates or other compensation in respect of office products sold by Printco.

"Printco Business" shall mean all the businesses, Assets and operations heretofore, currently or hereafter conducted or owned by Printco and the Printco Subsidiaries including all businesses, Assets and operations conducted or owned by Printco and the Printco Subsidiaries that have been sold or otherwise disposed of or discontinued.

"Printco Common Shares" shall have the meaning set forth in the recitals to this Agreement.

"Printco Indemnitees" shall mean Printco, the Printco Subsidiaries, their Affiliates, each of their respective directors, officers, employees and agents and each of the heirs, executors, successors and assigns of any of the foregoing.

"Printco Liabilities" shall mean collectively, whenever arising, whether prior to, at or following the Distribution Time, (i) all Liabilities of Printco and the Printco Subsidiaries under this Agreement or the Ancillary Agreements, (ii) all Liabilities of the Company and its Subsidiaries arising primarily out of or relating primarily to the management or conduct of the Printco Business or the administration of the Printco Subsidiaries, (iii) all Specified Securities Liabilities of Printco, (iv) all Liabilities of the Company relating to any Earn-Out Payment Liabilities arising out of any of the Acquisition Agreements pursuant to which any of the Printco Subsidiaries or any part of the Printco Business was acquired, (v) the Distributed Company Transaction Costs of Printco, (vi) $1,000,000 of the Company Transaction Costs and (vii) any Company Debt allocated to Printco pursuant to Section 2.08 of this Agreement.

"Printco Subsidiaries" shall mean the Subsidiaries of Printco as listed on Exhibit II.

"Pro Rata Share" shall mean, (i) as to any Distributed Company, the percentage that is equal to the average of (a) the ratio of the pro forma fiscal year 1998

revenues for such Distributed Company to the fiscal year 1998 consolidated revenues of the Company (prior to the Distributions), and (b) the ratio of the pro forma fiscal year 1998 net income for such Distributed Company to the fiscal year 1998 consolidated net earnings of the Company (prior to the Distributions), and (ii) as to the Company, the percentage that is equal to 100% less the sum of the Pro Rata Share percentages of the Distributed Companies as defined in (i) above. Estimations of the Company's Pro Rata Share and each Distributed Company's Pro Rata Share using financial data for the nine-month period ended January 24, 1998 are set forth in Exhibit III.

"Proxy" shall mean the definitive proxy statement dated May 1,

1998, distributed by the Company to the holders of the Company Common Stock, describing and seeking approval for (i) the investment provided for in the Investment Agreement and (ii) a one-for-four reverse stock split, as the same may be amended.

"Recovery" shall mean those monies received by an insured from an insurance carrier or paid by an insurance carrier on behalf of an insured pursuant to a claim under an insurance policy in the Insurance Program.

"Recovery Costs" shall have the meaning set forth in Section 7.04.

"Representatives" of either party shall mean such party's Affiliates, directors, officers, partners, employees, agents or other representatives (including attorneys, accountants and financial advisors).

"Retained Assets" shall mean (a) all the Assets of the Company and its Subsidiaries except for the Distributed Companies' Assets, and (b) the rights of the Company and its Subsidiaries under this Agreement and the Ancillary Agreements.

"Retained Business" shall mean all the businesses, Assets and operations heretofore, currently or hereafter conducted or owned by the Company and the Retained Subsidiaries, including all businesses, Assets or operations conducted or owned by the Company or its Subsidiaries that have been sold or otherwise disposed of or discontinued, (other than the Distributed Companies' Assets, Distributed Companies' Businesses and the business of managing and administering the Distributed Companies' Subsidiaries).

"Retained Liabilities" shall mean collectively, whenever arising, whether prior to, at or following the Distribution Time, (i) all Liabilities of the Company and the Retained Subsidiaries under this Agreement or the Ancillary Agreements, (ii) all Liabilities of the Company and its Retained Subsidiaries arising primarily out of or relating primarily to the management or conduct of the Retained Business or the administration of the Retained Subsidiaries, (iii) all Specified Securities Liabilities of the Company, (iv) all Liabilities of the Company relating to any Earn-Out Payment Liabilities arising out of any of the Acquisition Agreements pursuant to which any of the Retained Subsidiaries or any part of

the Retained Business was acquired, (v) all of the Company Transaction Costs (excluding, in aggregate, the $4,000,000 that is treated as part of the Distributed Companies' Liabilities) and (vi) any indebtedness for borrowed money of the Company other than Company Debt to be allocated to the Distributed Companies pursuant to Section 2.08 of this Agreement.

"Retained Subsidiaries" shall mean (x) all of the Subsidiaries of the Company other than the Distributed Companies and the Distributed Company Subsidiaries, and (y) 1186203 Ontario Limited, 1243231 Ontario Limited and 1203803 Ontario Limited, and their respective Subsidiaries.

"Schoolco" shall have the meaning set forth in the heading of this Agreement.

"Schoolco Acquisition Claims" shall mean any and all rights or claims that the Company or any of its Subsidiaries may have against the sellers of Schoolco and the Schoolco Subsidiaries under the Acquisition Agreements pursuant to which Schoolco and the Schoolco Subsidiaries were acquired by the Company or any of its Subsidiaries.

"Schoolco Assets" shall mean (a) the Assets of Schoolco and the Schoolco Subsidiaries and (b) the rights of Schoolco and the Schoolco

Subsidiaries under this Agreement and the Ancillary Agreements; provided, however, that Schoolco Assets shall not include any claim of Schoolco against the Company relating to the payment of finders' fees or other compensation in respect of customers referred to the Company by Schoolco or the payment of rebates or other compensation in respect of office products sold by Schoolco.

"Schoolco Business" shall mean all the businesses, Assets and operations heretofore, currently or hereafter conducted or owned by Schoolco and the Schoolco Subsidiaries including all businesses, Assets or operations conducted or owned by Schoolco and the Schoolco Subsidiaries that have been sold or otherwise disposed of or discontinued.

"Schoolco Common Shares" shall have the meaning set forth in the recitals to this Agreement.

"Schoolco Indemnitees" shall mean Schoolco, the Schoolco Subsidiaries, their Affiliates, each of their respective directors, officers, employees and agents and each of the heirs, executors, successors and assigns of any of the foregoing.

"Schoolco Liabilities" shall mean collectively, whenever arising, whether prior to, at or following the Distribution Time, (i) all Liabilities of Schoolco and the Schoolco Subsidiaries under this Agreement or the Ancillary Agreements, (ii) all the Liabilities of the Company and its Subsidiaries or Affiliates, arising primarily out of or relating primarily to the management or conduct of the Schoolco Business or the administration of the Schoolco Subsidiaries, (iii) all Specified Securities Liabilities of Schoolco, (iv) all Liabilities of the Company relating to any Earn-Out Payment Liabilities

arising out of any of the Acquisition Agreements pursuant to which any of the Schoolco Subsidiaries or any part of the Schoolco Business was acquired, (v) the Distributed Company Transaction Costs of Schoolco, (vi) $1,000,000 of the Company Transaction Costs and (vii) any Company Debt allocated to Schoolco pursuant to Section 2.08 of this Agreement.

"Schoolco Subsidiaries" shall mean the Subsidiaries of Schoolco as listed on Exhibit II.

"SEC" shall mean the Securities and Exchange Commission.

"Securities Act" shall mean the Securities Act of 1933, as amended.

"Securities Laws" shall mean the Exchange Act, the Securities Act and foreign, provincial and state securities laws.

"Shared Liability" shall mean (i) any Liability of the Company and its Subsidiaries, including without limitation a Liability arising under the Securities Laws, that (x) arises out of an act or omission that occurred prior to the Distribution Date, and (y) is not a Retained Liability, Printco Liability, Schoolco Liability, Techco Liability or Travelco Liability, and (ii) the Liabilities listed on Exhibit IV. By way of example and not of limitation, Shared Liabilities shall include: any Liability arising in connection with the Proxy or Tender Offer (other than a liability relating to information supplied by a specific subsidiary of the Company); and any Liability relating to the operation of the Company's headquarters arising prior to the Distribution Date; and any other liability not relating to the business of any particular Retained Subsidiary or Distributed Company Subsidiary.

"Special Insurance Recoveries" shall mean Recoveries whenever received by the Company (i) relating to insured casualty losses of a Distributed Company or Distributed Company Subsidiary occurring prior to the Distribution

Date and (ii) not actually used by the relevant Distributed Company or Distributed Company Subsidiary to rebuild, reconstruct, renovate or repair properties or facilities that suffered such loss.

"Specified Securities Liabilities" shall mean (a) as to any Distributed Company, any Liability under the Securities Laws arising out of or relating to (x) the Information Statement (other than Liabilities relating to those sections of the Information Statements specified on Exhibit V) and/or IPO Prospectus of such Distributed Company, and (y) any other securities filings or disclosures made by, or the failure to make filings or disclosures required to be made by, the Company or any of its Subsidiaries prior to the Distribution Date to the extent such Liability arises primarily out of material omissions made by or materially incorrect, false, or misleading information supplied by such Distributed Company or any of its Subsidiaries; and (b) as to the Company, any Liability under the Securities Laws arising out of or relating to any securities filings or disclosures made by, or the failure to make filings or disclosures required to be made by, the Company, or any of its

Subsidiaries prior to the Distribution Date to the extent such Liability arises primarily out of material omissions made by or materially incorrect, false or misleading information supplied by the Retained Business or a Retained Subsidiary.

"Subsidiary" shall mean any corporation, partnership, joint venture or other entity (i) in which another entity owns, directly or indirectly, ownership interests sufficient to elect a majority of the Board of Directors (or persons performing similar functions) (irrespective of whether at the time any other class or classes of ownership interests of such corporation, partnership, joint venture or other entity shall or might have such voting power upon the occurrence of any contingency) or (ii) of which another entity is a general partner or an entity performing similar functions (e.g., a trustee or managing member).

"Tax" shall mean all U.S. federal, state, local and foreign taxes and assessments, including all interest, penalties and additions imposed with respect to such amounts.

"Tax Allocation Agreement" shall mean the Tax Allocation Agreement between the Company and the Distributed Companies substantially in the form of Exhibit VI hereto, as and to the extent amended and restated as of the closing of the Transactions.

"Techco" shall have the meaning set forth in the heading of this Agreement.

"Techco Acquisition Claims" shall mean any and all rights or claims that the Company or any of its Subsidiaries may have against the sellers of Techco and the Techco Subsidiaries under the Acquisition Agreements pursuant to which Techco and the Techco Subsidiaries were acquired by the Company or any of its Subsidiaries.

"Techco Assets" shall mean (a) the Assets of Techco and the Techco Subsidiaries and (b) the rights of Techco and the Techco Subsidiaries under this Agreement and the Ancillary Agreements; provided, however, that Techco Assets shall not include any claim of Techco against the Company relating to the payment of finders' fees or other compensation in respect of customers referred to the Company by Techco or the payment of rebates or other compensation in respect of office products sold by Techco.

"Techco Business" shall mean all the businesses, Assets and operations heretofore, currently or hereafter conducted or owned by Techco and the Techco Subsidiaries including all businesses, Assets or operations conducted

or owned by Techco and the Techco Subsidiaries that have been sold or otherwise disposed of or discontinued.

"Techco Common Shares" shall have the meaning set forth in the recitals to this Agreement.

"Techco Indemnitees" shall mean Techco, the Techco Subsidiaries, their Affiliates, each of their respective directors, officers, employees and agents and each of the heirs, executors, successors and assigns of any of the foregoing.

"Techco Liabilities" shall mean collectively, whenever arising, whether prior to, at or following the Distribution Time, (i) all Liabilities of Techco and the Techco Subsidiaries under this Agreement or the Ancillary Agreements, (ii) all the Liabilities of the Company and its Subsidiaries, arising primarily out of or relating primarily to the management or conduct of the Techco Business or the administration of the Techco Subsidiaries, (iii) all Specified Securities Liabilities of Techco, (iv) all Liabilities of the Company relating to any Earn-Out Payment Liabilities arising out of any of the Acquisition Agreements pursuant to which any of the Techco Subsidiaries or any part of the Techco Business was acquired, (v) the Distributed Company Transaction Costs of Techco, (vi) $1,000,000 of the Company Transaction Costs and (vii) any Company Debt allocated to Techco pursuant to Section 2.08 of this Agreement.

"Techco Subsidiaries" shall mean the Subsidiaries of Techco as listed on Exhibit II.

"Tender Offer" shall mean, collectively, (i) the cash tender offer by the Company to purchase approximately 37 million shares (including shares issuable upon exercise of outstanding stock options) of Company Common Stock at a price of $27 per share commenced on May 4, 1998, and (ii) the tender offer of the Company to purchase any and all of its $230.0 million outstanding 5 1/2% Convertible Subordinated Notes due 2003 for a purchase price of 94.5% of the principal amount, plus accrued interest, commenced on May 5, 1998.

"Third Party Claim" shall have the meaning set forth in Section 5.07.

"Transaction Costs" shall mean all transaction costs including legal, accounting, investment banking, financial advisory and other fees incurred by a party hereto (or one of its Subsidiaries) in connection with the Transactions or any of the other transactions described in, or contemplated by, IPO Prospectuses and Section 2.08.

"Transactions" shall mean the execution, delivery and performance of this Agreement, the Ancillary Agreements, and the Investment Agreement and the consummation of the Preliminary Transactions, the Distributions, the Proxy, the Tender Offer, the 2001 Note Exchange Offer and any other transactions contemplated by this Agreement, the Ancillary Agreements and the Investment Agreement, including without limitation the financing of the Company related thereto, but not including the initial public offerings by the Distributed Companies or the financings of the Distributed Companies.

"Transferred Policies" shall have the meaning set forth in Section 7.02(b).

"Travelco" shall have the meaning set forth in the heading of this Agreement.

"Travelco Acquisition Claims" shall mean any and all rights or claims that the Company or any of its Subsidiaries may have against the sellers of Travelco and the Travelco Subsidiaries under the Acquisition Agreements pursuant to which Travelco and the Travelco Subsidiaries were acquired by the Company or any of its Subsidiaries.

"Travelco Assets" shall mean (a) the Assets of Travelco and the Travelco Subsidiaries and (b) the rights of Travelco and the Travelco Subsidiaries under this Agreement and the Ancillary Agreements; provided, however, that Travelco Assets shall not include any claim of Travelco against the Company relating to the payment of finders' fees or other compensation in respect of customers referred to the Company by Travelco or the payment of rebates or other compensation in respect of office products sold by Travelco.

"Travelco Business" shall mean all the businesses, Assets and operations heretofore, currently or hereafter conducted or owned by Travelco and the Travelco Subsidiaries including all businesses, Assets or operations conducted or owned by Travelco and the Travelco Subsidiaries that have been sold or otherwise disposed of or discontinued.

"Travelco Common Shares" shall have the meaning set forth in the recitals to this Agreement.

"Travelco Indemnitees" shall mean Travelco, the Travelco Subsidiaries, their Affiliates, each of their respective directors, officers, employees and agents and each of the heirs, executors, successors and assigns of any of the foregoing.

"Travelco Liabilities" shall mean collectively, whenever arising, whether prior to, at or following the Distribution Time, (i) all Liabilities of Travelco and the Travelco Subsidiaries under this Agreement or the Ancillary Agreements, (ii) all the Liabilities of the Company and its Subsidiaries, arising primarily out of or relating primarily to the management or conduct of the Travelco Business or the administration of the Travelco Subsidiaries, (iii) all Specified Securities Liabilities of Travelco, (iv) all Liabilities of the Company relating to any Earn-Out Payment Liabilities arising out of any of the Acquisition Agreements pursuant to which any of the Travelco Subsidiaries or any part of the Travelco Business was acquired, (v) the Distributed Company Transaction Costs of Travelco, (vi) $1,000,000 of the Company Transaction Costs and (vii) any Company Debt allocated to Travelco pursuant to Section 2.08 of this Agreement.

"Travelco Subsidiaries" shall mean the Subsidiaries of Travelco as listed on Exhibit II.

"2001 Note Exchange Offer" shall mean the Company's offer to exchange its 5 1/2% Convertible Subordinated Notes due 2001 for Company Common Stock at a temporarily reduced conversion price commenced on May 1, 1998.

SECTION 1.02 References; Interpretation. References to an "Exhibit" or to a "Schedule" are, unless otherwise specified, to one of the Exhibits or Schedules attached to this Agreement, and references to a "Section" or "Article" are, unless otherwise specified, to one of the Sections and Articles of this Agreement. Any time the word "including" is used herein it means "including without limitation".

ARTICLE II
PRELIMINARY TRANSACTIONS

SECTION 2.01 Stock Transfers.

(a) At or prior to the Distribution Time, the Company shall transfer or otherwise convey to Printco all its right, title and interest in and to all the shares of capital stock of the Printco Subsidiaries.

(b) At or prior to the Distribution Time, the Company shall transfer or otherwise convey to Schoolco all its right, title and interest in and to all the shares of capital stock of the Schoolco Subsidiaries.

(c) At or prior to the Distribution Time, the Company shall transfer or otherwise convey to Techco all its right, title and interest in and to all the shares of capital stock of the Techco Subsidiaries.

(d) At or prior to the Distribution Time, the Company shall transfer or otherwise convey to Travelco all its right, title and interest in and to all the shares of capital stock of the Travelco Subsidiaries.

Immediately after the stock transfers set forth in this Section 2.01, the Company shall not own any capital stock of (or other equity interest in) any of the Distributed Company Subsidiaries.

SECTION 2.02 Liabilities.

(a) Effective as of the Distribution Time and except as otherwise specifically provided in this Agreement or any of the Ancillary Agreements, Printco hereby unconditionally agrees to cause each Printco Subsidiary that has incurred a Printco Liability to pay, perform and discharge such Liability when due in accordance with its terms.

(b) Effective as of the Distribution Time and except as otherwise specifically provided in this Agreement or any of the Ancillary Agreements, Schoolco hereby unconditionally agrees to cause each School Subsidiary that has incurred a Schoolco Liability to pay, perform and discharge such Liability when due in accordance with its terms.

(c) Effective as of the Distribution Time and except as otherwise specifically provided in this Agreement or any of the Ancillary Agreements, Techco hereby unconditionally agrees to cause each Techco Subsidiary that has incurred a Techco Liability to pay, perform and discharge such Liability when due in accordance with its terms.

(d) Effective as of the Distribution Time and except as otherwise specifically provided in this Agreement or any of the Ancillary Agreements, Travelco hereby unconditionally agrees to cause each Travelco Subsidiary that has incurred a Travelco Liability to pay, perform and discharge such Liability when due in accordance with its terms.

SECTION 2.03 Transfer of Certain Licenses and Permits.

(a) In furtherance of the transfer of the capital stock of the Printco Subsidiaries to Printco and the assumption of the Printco Liabilities set forth in this Article II, at or prior to the Distribution Time, (i) all transferrable licenses, permits and authorizations issued by governmental or regulatory entities which are used primarily in connection with the Printco Business but which are held in the name of the Company or any Retained Subsidiary shall be duly and validly transferred by the Company or such

Subsidiary to Printco or the appropriate Printco Subsidiary, and (ii) all transferrable licenses, permits and authorizations issued by governmental or regulatory entities which are used primarily in connection with the Retained Business but which are held in the name of Printco or the Printco Subsidiaries shall be duly and validly transferred by Printco or such Subsidiary to the Company or the appropriate Subsidiary of the Company.

(b) In furtherance of the transfer of the capital stock of the Schoolco Subsidiaries to Schoolco and the assumption of the Schoolco Liabilities set forth in this Article II, at or prior to the Distribution Time, (i) all transferrable licenses, permits and authorizations issued by governmental or regulatory entities which are used primarily in connection with the Schoolco Business but which are held in the name of the Company or any Retained Subsidiary shall be duly and validly transferred by the Company or such Subsidiary to Schoolco or the appropriate Schoolco Subsidiary, and (ii) all transferrable licenses, permits and authorizations issued by governmental or regulatory entities which are used primarily in connection with the Retained Business but which are held in the name of Schoolco or the Schoolco Subsidiaries shall be duly and validly transferred by Schoolco or such Subsidiary to the Company or the appropriate Subsidiary of the Company.

(c) In furtherance of the transfer of the capital stock of the Techco Subsidiaries to Techco and the assumption of the Techco Liabilities set forth in this Article

II, at or prior to the Distribution Time, (i) all transferrable licenses, permits and authorizations issued by governmental or regulatory entities which are used primarily in connection with the Techco Business but which are held in the name of the Company or any Retained Subsidiary shall be duly and validly transferred by the Company or such Subsidiary to Techco or the appropriate Techco Subsidiary, and (ii) all transferrable licenses, permits and authorizations issued by governmental or regulatory entities which are used primarily in connection with the Retained Business but which are held in the name of Techco or the Techco Subsidiaries shall be duly and validly transferred by Techco or such Subsidiary to the Company or the appropriate Subsidiary of the Company.

(d) In furtherance of the transfer of the capital stock of the Travelco Subsidiaries to Travelco and the assumption of the Travelco Liabilities set forth in this Article II, at or prior to the Distribution Time, (i) all transferrable licenses, permits and authorizations issued by governmental or regulatory entities which are used primarily in connection with the Travelco Business but which are held in the name of the Company or any Retained Subsidiary shall be duly and validly transferred by the Company or such Subsidiary to Travelco or the appropriate Travelco Subsidiary, and (ii) all transferrable licenses, permits and authorizations issued by governmental or regulatory entities which are used primarily in connection with the Retained Business but which are held in the name of Travelco or the Travelco Subsidiaries shall be duly and validly transferred by Travelco or such Subsidiary to the Company or the appropriate Subsidiary of the Company.

SECTION 2.04 Transfer and Assumption Documentation. In furtherance of the transfer of the capital stock of the Distributed Company Subsidiaries to the relevant Distributed Companies and the assumption of the Distributed Companies' Liabilities set forth in this Article II, at or prior to the Distribution Time, (i) the parties hereto shall execute and deliver, and cause their respective Subsidiaries to execute and deliver, such deeds, bills of sale, stock powers, certificates of title, assignments of leases and contracts and other instruments of contribution, grant, conveyance, assignment, transfer and delivery necessary to evidence such contribution, grant, conveyance, assignment, transfer and delivery (collectively, the "Conveyancing Instruments") and (ii) each party hereto or the appropriate Subsidiary of such party shall

execute and deliver such instruments of assumption (together with the Conveyancing Instruments, the "Conveyancing and Assumption Instruments") as and to the extent necessary to evidence such assumption.

SECTION 2.05 Intercompany Accounts. All intercompany receivables, payables and loans (other than receivables, payables and loans otherwise specifically provided for in any of the Ancillary Agreements or hereunder) between any Distributed Company or Distributed Company Subsidiary, on the one hand, and the Company or any of the Retained Subsidiaries, on the other hand, including, without limitation, in respect of any cash balances, any cash balances representing deposited checks or drafts for which only a provisional credit has been allowed or any cash held in any centralized cash management system, shall be settled or otherwise eliminated prior to the Distribution Date.

SECTION 2.06 Elimination of Guarantees. To the extent that any of the parties to this Agreement or any Subsidiary thereof is a guarantor of or obligor for (a "Guarantor") any Liability of any other party to this Agreement or any Subsidiary thereof (a "Guaranteed Party"), the Guarantor and the Guaranteed Party shall use their commercially reasonable efforts to have, on or prior to the Distribution Date, or as soon as practicable thereafter, the Guarantor removed as guarantor of or obligor for such Liability of the Guaranteed Party (a "Guaranteed Liability"). In the event that the Guarantor cannot be removed as guarantor of or obligor for such Guaranteed Liability, the Guaranteed Party agrees that until such Guaranteed Liability is discharged in full, the Guaranteed Party shall take no action, and shall not permit any of its Subsidiaries to take any action, which will have the effect of increasing the contingent liability or exposure of the Guarantor or any of its Subsidiaries with respect to such Guaranteed Liability. This Section 2.06 shall not apply to the obligations set forth on Schedule 2.06.

SECTION 2.07 Assignments and Transfers Not Effected Prior to the Distribution. Anything contained herein to the contrary notwithstanding, (a) this Agreement shall not constitute an agreement to assign or transfer any agreement, contract, lease, license, permit, sales order, purchase order, open bid or other commitment if an assignment, attempted assignment, transfer or attempted transfer of the same without the consent of a third party would constitute a breach thereof or in any way impair the rights of the Distributed Companies or the Company or any of their respective Subsidiaries thereunder (any such item being referred to as a "Nonassignable Contract") and (b) nothing herein shall be deemed to require the transfer of any Assets or the assumption of any Liabilities which by their terms or operation of law cannot be transferred or assumed. To the extent that any assignments or transfers contemplated by this Article II shall not have been consummated at or prior to the Distribution Time, the parties hereto and their respective Subsidiaries shall cooperate and use commercially reasonable efforts to obtain any necessary consents or approvals for the assignment of all Nonassignable Contracts, the transfer of all Assets and the assumption of all Liabilities contemplated to be assigned, transferred or assumed pursuant to this Article II and shall otherwise cooperate and use reasonable best efforts to effect any such assignments, transfers or assumptions as promptly following the Distribution Time as shall be practicable. In the event that any consent required with respect to a Nonassignable Contract is not obtained or an attempted assignment thereof would be ineffective or would impair either party's rights under any such Nonassignable Contract, then the party obligated to assign such Nonassignable Contract (the "Assignor") will promptly pay or cause to be paid to the assignee thereof (the "Assignee"), when received, all monies received by the Assignor with respect to any such Nonassignable Contract and in consideration thereof the Assignee shall pay, perform and discharge on behalf of the Assignor all the Assignor's Liabilities, thereunder in a timely manner and in accordance with the terms thereof. In the event that any such transfer of Assets or assumption of Liabilities has not been consummated, from and after the Distribution Time, the party retaining such Asset or Liability shall hold such Asset in trust for the

use and benefit of the party entitled thereto (at the expense of the party entitled thereto) or retain such Liability for the account

of the party by whom such Liability is to be assumed pursuant hereto, as the case may be. The parties hereto will take such other action as may be reasonably requested by the Assignee or party to whom such Asset is to be transferred, or by whom such Liability is to be assumed, as the case may be, in order to place such party, insofar as is reasonably possible, in the same position as would have existed had such Nonassignable Contract been assigned, or such Asset or Liability been transferred or assumed, as contemplated hereby. As and when any required consent to the assignment of a Nonassignable Contract is obtained or any such Asset or Liability becomes transferable or able to be assumed, such assignment, transfer or assumption shall be effected forthwith. The parties agree that, as of the Distribution Time, each party hereto shall be deemed to have acquired complete and sole beneficial ownership over all Assets, together with all rights, powers and privileges incident thereto, and shall be deemed to have assumed all Liabilities, and all duties, obligations and responsibilities incident thereto, which such party is entitled to acquire or required to assume pursuant to the terms of this Agreement or any of the Ancillary Agreements.

SECTION 2.08 Debt. On or prior to the Distribution Date, each Distributed Company shall obtain bank credit facilities, borrow funds under such facilities and pay such moneys borrowed to reduce the Company Debt equal in amount to (i) the amounts reflected in relation to such Distributed Company on Schedule 2.08, and (ii) the amount of any debt incurred by the Company after the date of the Investment Agreement in connection with the acquisition of any entities that, upon the Distributions, will become a Subsidiary of such Distributed Company, which money shall be paid to the Company to be applied to the Company Debt.

SECTION 2.09 Assignment of Acquisition Claims. The Company shall contribute, grant, convey, assign, transfer and deliver to Printco, Schoolco, Techco and Travelco all the Company's rights and interest in and to the Printco Acquisition Claims, the Schoolco Acquisition Claims, the Techco Acquisition Claims and the Travelco Acquisition Claims, respectively. Notwithstanding the assignment of the foregoing Acquisition Claims under this Section 2.09: (i) the net recoveries of Printco arising out of the Printco Acquisition Claims shall be shared between Printco and the Company, as they are collected, in a ratio of 20% to 80%, respectively, until the Company has received the amount shown on Schedule 2.09 (including through any Special Insurance Proceeds retained by the Company pursuant to Section 7.04), after which time any net recoveries from the Printco Acquisition Claims shall be shared, as they are collected, between Printco and the Company in a ratio of 95% to 5%, respectively, (ii) the net recoveries of Schoolco arising out of the Schoolco Acquisition Claims shall be shared, as they are collected, between Schoolco and the Company in a ratio of 20% to 80%, respectively, until the Company has received the amount shown on Schedule 2.09, after which time any net recoveries from the Schoolco Acquisition Claims shall be shared, as they are collected, between Schoolco and the Company in a ratio of 95% to 5%, respectively, (iii) the net recoveries from the Techco Acquisition Claims shall be assigned 100% to Techco, and (iv) the net recoveries from the Travelco Acquisition Claims shall be assigned 100% to Travelco.

SECTION 2.10 Pledged Shares. The Company shall hold all Pledged Shares for the purposes specified in, and distribute such Pledged Shares as provided pursuant to, Schedule 2.10.

SECTION 2.11 Other Transactions. In furtherance of the transfer of the capital stock of the Distributed Company Subsidiaries to the relevant Distributed Companies and the assumption of the Distributed Companies' Liabilities set forth in this Article II, at or prior to the Distribution Time, the parties agree to effect the transactions, if any, described in Schedule 2.11 attached hereto.

ARTICLE III
THE DISTRIBUTION

SECTION 3.01 Directors and Employees.

(a) The Company shall cause all those individuals who will be officers or directors of the Company or any Retained Subsidiary immediately after the Distribution Time to resign, effective as of the Distribution Time, from all officer or director positions with any of the Distributed Companies or Distributed Company Subsidiaries in which they serve.

(b) The Company shall cause all those individuals who will be officers or directors of any of the Distributed Companies or the Distributed Company Subsidiaries immediately after the Distribution Time to resign, effective as of the Distribution Time, from all officer or director positions with the Company or any Retained Subsidiary in which they serve.

SECTION 3.02 Mechanics of Distribution.

(a) Delivery of Shares to Agent. Following consummation of the transactions contemplated by Section 2.01 and subject to the closing conditions set forth in Article VIII the Company shall deliver to the Agent, for the benefit of holders of record of the Company Common Stock as at the close of business on the Distribution Record Date, the share certificates representing (i) all the Printco Common Shares, (ii) all the Schoolco Common Shares, (iii) all the Techco Common Shares and (iv) all the Travelco Common Shares, and shall instruct the Agent to distribute such share certificates to such holders of the Company Common Stock upon notice from the Company that the conditions to the obligation of the Company to consummate the Distributions have been satisfied or waived and that the Agent is authorized to proceed with the distribution of the Distribution Shares. Immediately following the Distributions, the Company shall not own any capital stock of the Distributed Companies or the Distributed Company Subsidiaries.

(b) Distribution of Certificates. The Distributions shall be effected by the distribution to each holder of record of Company Common Stock, as of the Distribution Record Date, of certificates representing one Printco Common Share for each shares of Company Common Stock, one Schoolco Common Share for each shares of Company Common Stock, one Techco Common Share for each shares of Company Common Stock, one Travelco Common Share for each shares of Company Common Stock and of cash in lieu of fractional shares as set forth in Section 3.02(c). The Company shall instruct the Agent to distribute the Distribution Shares and the cash in lieu of fractional shares as promptly as practicable after the Distribution Time.

(c) Payment for Fractional Shares. No certificate or scrip representing fractional shares of the Distribution Shares shall be distributed to holders of the Company Common Stock as part of the Distributions. Each holder of Company Common Stock who would otherwise be entitled to receive a fractional share of the common stock of any of the Distributed Companies pursuant to the Distributions shall receive cash in lieu of such fractional

share. As soon as practicable after the Distribution Date, the Company shall direct the Agent to determine the number of fractional shares of any of the Distribution Shares allocable to each holder of record of Company Common Stock as of the Distribution Record Date who will receive cash in lieu of such fractional shares, to aggregate all such fractional shares into whole shares and sell the whole shares obtained thereby in open market transactions or otherwise, in each case at then prevailing trading prices, and to cause to be distributed to each such holder, in lieu of any fractional share, such holder's ratable share of the proceeds of such sale, after making appropriate deductions of the amount required to be withheld for U.S. federal income tax purposes and after deducting an amount equal to all brokerage charges, commissions and transfer taxes attributed to such sale.

SECTION 3.03 Timing of Distribution. The Board of Directors of the Company shall, or shall authorize certain officers of the Company to, formally declare the Distributions and shall authorize the Company to effect the Distributions at the Distribution Time, subject to the satisfaction or waiver of the conditions set forth in Article VIII. The Distributions shall be deemed to be effective upon notification by the Company to the Agent that the conditions to the obligations of the Company to consummate the Distributions have been satisfied or waived and that the Agent is authorized to proceed with the distribution of the Distribution Shares.

ARTICLE IV
MUTUAL RELEASE

Effective as of the Distribution Time and except as otherwise specifically set forth in this Agreement or any of the Ancillary Agreements, each of the parties hereto, on its own behalf and on behalf of each of its respective Subsidiaries, releases and forever discharges all of the other parties hereto and their respective Subsidiaries, and their

respective officers, directors, agents, Affiliates, record and beneficial security holders (including, without limitation, trustees and beneficiaries of trusts holding such securities), advisors and Representatives (in their respective capacities as such) and their respective heirs, executors, administrators, successors and assigns, of and from all debts, demands, actions, causes of action, suits, accounts, covenants, contracts, agreements, damages, claims and Liabilities whatsoever of every name and nature, both in law and in equity, which the releasing party has or ever had, which arise out of or relate to the Transactions or the IPOs; provided, however, that the foregoing general release shall not apply to (i) any Liabilities (including Liabilities with respect to indemnification) assumed, transferred, assigned, allocated or arising under this Agreement, any of the Ancillary Agreements or the Investment Agreement and shall not affect any party's right to enforce this Agreement, any Ancillary Agreement or the Investment Agreement in accordance with their respective terms, (ii) any Liabilities of the Company, any of its Subsidiaries or any seller of a Retained Subsidiary or Distributed Company Subsidiary arising out of the agreement pursuant to which such Retained Subsidiary or Distributed Company Subsidiary was acquired by the Company or any of its Subsidiaries or any other agreement to which the Company or any of its Subsidiaries and such a seller (acting in the capacity of a seller) are parties, or (iii) any Liability arising out of an agreement between any party to this Agreement and Jonathan J. Ledecky. Each party understands and agrees that, except as otherwise specifically provided in this Agreement or the Ancillary Agreements, none of the parties is, in this Agreement or the Ancillary Agreements or otherwise, representing or warranting in any way as to the Assets, business or Liabilities transferred, assumed or retained as contemplated hereby or as to any consents or approvals required in connection with the consummation of the transactions contemplated by this Agreement or the Ancillary Agreements, it being agreed and understood that each party shall take or keep all of its Assets "as is" and that

it shall bear the economic and legal risk that conveyance of such Assets shall prove to be insufficient or that the title to any Assets shall be other than good and marketable and free from encumbrances of any nature whatsoever; provided, however, that the foregoing disclaimer shall not apply to any representations made by the Company, any of its Subsidiaries or any seller of a Retained Subsidiary or Distributed Company Subsidiary under the agreement pursuant to which such Retained Subsidiary or Distributed Company Subsidiary was acquired.

ARTICLE V
INDEMNIFICATION

SECTION 5.01 Indemnification by the Company. Except as otherwise specifically set forth in any provision of this Agreement or of any Ancillary Agreement, (a) the Company and, as to any particular Indemnifiable Loss, the Retained Subsidiary out of whose assets, business or operations the Indemnifiable Loss arises, shall indemnify, defend and hold harmless the Distributed Companies' Indemnitees from and against, and pay or reimburse the Distributed Companies' Indemnitees for, any and all Indemnifiable Losses, as

incurred, of the Distributed Companies' Indemnitees arising out of, relating to or resulting from (i) the Retained Liabilities, the Retained Assets or the Retained Business or (ii) the breach by the Company or any of the Retained Subsidiaries of any provision of this Agreement or of any Ancillary Agreement, in each case, whether such Indemnifiable Losses relate to or arise out of or result from events, occurrences, actions, omissions, facts or circumstances occurring, existing or asserted at, before or after the Distribution Time, and (b) the Company shall bear the costs of and indemnify, defend and hold harmless the Printco Indemnitees, the Schoolco Indemnitees, the Techco Indemnitees and the Travelco Indemnitees from the Company's Pro Rata Share of Indemnifiable Losses, as incurred, that relate to, arise out of or result from the Shared Liabilities; provided, however, that the Company shall have no obligation to indemnify any of the Distributed Companies' Indemnitees for any Indemnifiable Losses arising out of, relating to or resulting from (y) the gross negligence, bad faith or wilful misconduct of the relevant Distributed Company or Distributed Company Subsidiary after the Distribution Time or (z) the failure of such Distributed Company or any of its Subsidiaries to perform its obligations under any agreement in accordance with the terms of such agreement after the Distribution Time.

SECTION 5.02 Indemnification by Printco. Except as otherwise specifically set forth in any provision of this Agreement or of any Ancillary Agreement, (a) Printco and, as to any particular Indemnifiable Loss, the Printco Subsidiary out of whose assets, business or operations the Indemnifiable Loss arises, shall indemnify, defend and hold harmless the Company Indemnitees, the Schoolco Indemnitees, the Techco Indemnitees and the Travelco Indemnitees from and against, and pay or reimburse such Indemnitees for, any and all Indemnifiable Losses, as incurred, of the Company Indemnitees, the Schoolco Indemnitees, the Techco Indemnitees and the Travelco Indemnitees arising out of, relating to or resulting from (i) the Printco Liabilities, the Printco Assets, the Printco Business or the Printco Acquisition Claims, (ii) the breach by Printco or any of its Subsidiaries of any provision of this Agreement or of any Ancillary Agreement, in each case, whether such Indemnifiable Losses relate to, arise out of or result from events, occurrences, actions, omissions, facts or circumstances occurring, existing or asserted at, before or after the Distribution Time and (b) Printco shall bear the costs of and indemnify, defend and hold harmless the Company Indemnitees, the Schoolco Indemnitees, the Techco Indemnitees and the Travelco Indemnitees from Printco's Pro Rata Share of Indemnifiable Losses, as incurred, that relate to, arise out of or result from the Shared Liabilities; provided, however, that Printco shall have no obligation to indemnify any of the Company Indemnitees, the Schoolco Indemnitees, the

Techco Indemnitees or the Travelco Indemnitees for any Indemnifiable Losses relating to, arising out of or resulting from (x) the gross negligence, bad faith or wilful misconduct of the Company, Schoolco, Techco, Travelco, or any of their respective Subsidiaries, as applicable, after the Distribution Time or (y) the failure of the Company, Schoolco, Techco or Travelco, or any of their respective Subsidiaries, as applicable, to perform its obligations under any agreement in accordance with the terms of such agreement after the Distribution Time; provided further, however, that Printco shall have no obligation to indemnify any of the Company Indemnitees, the Schoolco Indemnitees, the Techco

Indemnitees or the Travelco Indemnitees for any Indemnifiable Losses pursuant to clause (b) of this Section 5.02 to the extent that Printco has previously indemnified such Indemnitees for Losses pursuant to clause (b) of this Section 5.02 in an aggregate amount equal to or exceeding $1.75 million.

SECTION 5.03 Indemnification by Schoolco. Except as otherwise specifically set forth in any provision of this Agreement or of any Ancillary Agreement, (a) Schoolco and, as to any particular Indemnifiable Loss, the Schoolco Subsidiary out of whose assets, business or operations the Indemnifiable Loss arises, shall indemnify, defend and hold harmless the Company Indemnitees, the Printco Indemnitees, the Techco Indemnitees and the Travelco Indemnitees from and against, and pay or reimburse such Indemnitees for, any and all Indemnifiable Losses, as incurred, of the Company Indemnitees, the Printco Indemnitees, the Techco Indemnitees and the Travelco Indemnitees arising out of, relating to or resulting from (i) the Schoolco Liabilities, the Schoolco Assets, the Schoolco Business or the Schoolco Acquisition Claims and (ii) the breach by Schoolco or any of its Subsidiaries of any provision of this Agreement or of any Ancillary Agreement, in each case, whether such Indemnifiable Losses relate to, arise out of or result from events, occurrences, actions, omissions, facts or circumstances occurring, existing or asserted at, before or after the Distribution Time, and (b) Schoolco shall bear the costs of and indemnify, defend and hold harmless the Company Indemnitees, the Printco Indemnitees, the Techco Indemnitees and the Travelco Indemnitees from Schoolco's Pro Rata Share of Indemnifiable Losses, as incurred, that relate to, arise out of or result from the Shared Liabilities; provided, however, that Schoolco shall have no obligation to indemnify any of the Company Indemnitees, the Printco Indemnitees, the Techco Indemnitees and the Travelco Indemnitees for any Indemnifiable Losses relating to, arising out of or resulting from (x) the gross negligence, bad faith or wilful misconduct of the Company, Printco, Techco or Travelco, as applicable, after the Distribution Time or (y) the failure of the Company, Printco, Techco or Travelco, or any of their respective Subsidiaries, as applicable, to perform its obligations under any agreement in accordance with the terms of such agreement after the Distribution Time; provided further, however, that Schoolco shall have no obligation to indemnify any of the Company Indemnitees, the Printco Indemnitees, the Techco Indemnitees or the Travelco Indemnitees for any Indemnifiable Losses pursuant to clause (b) of this Section 5.03 to the extent that Schoolco has previously indemnified such Indemnitees for Losses pursuant to clause (b) of this Section 5.03 in an aggregate amount equal to or exceeding $1.75 million.

SECTION 5.04 Indemnification by Techco. Except as otherwise specifically set forth in any provision of this Agreement or of any Ancillary Agreement, (a) Techco and, as to any particular Indemnifiable Loss, the Techco Subsidiary out of whose assets, business or operations the Indemnifiable Loss arises, shall indemnify, defend and hold harmless the Company Indemnitees, the Printco Indemnitees, the Schoolco Indemnitees and the Travelco Indemnitees from and against, and pay or reimburse such Indemnitees for, any and all Indemnifiable Losses, as incurred, of the Company Indemnitees, the Printco Indemnitees, the Schoolco Indemnitees and the Travelco Indemnitees arising out of, relating to or resulting

from (i) the Techco Liabilities, the Techco Assets, the Techco Business or the Techco Acquisition Claims and (ii) the breach by Techco or any of its Subsidiaries of any provision of this Agreement or of any Ancillary Agreement, in each case, whether such Indemnifiable Losses relate to, arise out of or result from events, occurrences, actions, omissions, facts or circumstances occurring, existing or asserted at, before or after the Distribution Time, and (b) Techco shall bear the costs of and indemnify, defend and hold harmless the Company Indemnitees, the Printco Indemnitees, the Schoolco Indemnitees and the Travelco Indemnitees from Techco's Pro Rata Share of Indemnifiable Losses, as incurred, that relate to, arise out of or result from the Shared Liabilities; provided, however, that Techco shall have no obligation to indemnify any of the Company Indemnitees, the Printco Indemnitees, the Schoolco Indemnitees and the Travelco Indemnitees for any Indemnifiable Losses relating to, arising out of or resulting from (x) the gross negligence, bad faith or wilful misconduct of the Company, Printco, Schoolco or Travelco, as applicable, after the Distribution Time or (y) the failure of the Company, Printco, Schoolco or Travelco, or any of their respective Subsidiaries, as applicable, to perform its obligations under any agreement in accordance with the terms of such agreement after the Distribution Time; provided further, however, that Techco shall have no obligation to indemnify any of the Company Indemnitees, the Printco Indemnitees, the Schoolco Indemnitees or the Travelco Indemnitees for any Indemnifiable Losses pursuant to clause (b) of this Section 5.04 to the extent that Techco has previously indemnified such Indemnitees for Losses pursuant to clause (b) of this Section 5.04 in an aggregate amount equal to or exceeding $1.75 million.

SECTION 5.05 Indemnification by Travelco. Except as otherwise specifically set forth in any provision of this Agreement or of any Ancillary Agreement, (a) Travelco and, as to any particular Indemnifiable Loss, the Travelco Subsidiary out of whose assets, business or operations the Indemnifiable Loss arises, shall indemnify, defend and hold harmless the Company Indemnitees, the Printco Indemnitees, the Schoolco Indemnitees and the Techco Indemnitees from and against, and pay or reimburse such Indemnitees for, any and all Indemnifiable Losses, as incurred, of the Company Indemnitees, the Printco Indemnitees, the Schoolco Indemnitees and the Techco Indemnitees arising out of, relating to or resulting from (i) the Travelco Liabilities, the Travelco Assets, the Travelco Business or the Travelco Acquisition Claims and (ii) the breach by Travelco or any of its Subsidiaries of any provision of this Agreement or of any Ancillary Agreement, in each case, whether such Indemnifiable Losses relate to or arise from events, occurrences, actions, omissions, facts or circumstances occurring, existing or asserted at, before or after the Distribution Time, and (b) Travelco shall bear the costs of and indemnify, defend and hold harmless the Company Indemnitees, the Printco Indemnitees, the Schoolco Indemnitees and the Techco Indemnitees from Travelco's Pro Rata Share of Indemnifiable Losses, as incurred, that relate to, arise out of or result from the Shared Liabilities; provided, however, that Travelco shall have no obligation to indemnify any of the Company Indemnitees, the Printco Indemnitees, the Schoolco Indemnitees and the Techco Indemnitees for any Indemnifiable Losses relating to, arising out of or resulting from (x) the gross negligence, bad faith or wilful misconduct of the Company, Printco, Schoolco or Techco, as applicable, after the Distribution Time or

(y) the failure of the Company, Printco, Schoolco or Techco, or any of their respective Subsidiaries, as applicable, to perform its obligations under any agreement in accordance with the terms of such agreement after the Distribution Time ; provided further, however, that Travelco shall have no obligation to indemnify any of the Company Indemnitees, the Printco Indemnitees, the Schoolco Indemnitees or the Techco Indemnitees for any Indemnifiable Losses pursuant to

clause (b) of this Section 5.05 to the extent that Travelco has previously indemnified such Indemnitees for Losses pursuant to clause (b) of this Section 5.05 in an aggregate amount equal to or exceeding $1.75 million.

SECTION 5.06 Limitations on Indemnification Obligations. The amount that any party (an "Indemnifying Party") is or may be required to pay to any other Person (an "Indemnitee") pursuant to Sections 5.01, 5.02, 5.03, 5.04 or 5.05, as applicable, shall be reduced (retroactively or prospectively) by any Insurance Proceeds, settlement recoveries or other amounts actually recovered by or on behalf of such Indemnitee in respect of the related Indemnifiable Loss. If an Indemnitee shall have received the payment required by this Agreement from an Indemnifying Party in respect of an Indemnifiable Loss and shall subsequently actually receive Insurance Proceeds, settlement recoveries or other amounts in respect of such Indemnifiable Loss, then such Indemnitee shall pay to such Indemnifying Party a sum equal to the amount of such Insurance Proceeds, settlement recoveries or other amounts actually received, up to the aggregate amount of any payments made by such Indemnifying Party pursuant to this Agreement in respect of such Indemnifiable Loss. Amounts paid by an Indemnifying Party pursant to clause (b) of Sections 5.01, 5.02, 5.03, 5.04 or 5.05 which are paid with, or reimbursed by, Insurance Proceeds, settlement recoveries or other amounts actually recovered, by or on behalf of an Indemnifying Party, in respect of the related Indemnifiable Loss, shall not count toward the limit on each party's Shared Liabilities set forth in the second proviso of Sections 5.01, 5.02, 5.03, 5.04 or 5.05, as applicable.

SECTION 5.07 Procedures for Indemnification of Third Party Claims.

(a) If a claim or demand is made against an Indemnitee by any person who is not a party, or an Affiliate of a party, to this Agreement or any of the Ancillary Agreements (a "Third Party Claim") as to which such Indemnitee is entitled to indemnification pursuant to this Agreement, such Indemnitee shall notify the Indemnifying Party in writing, and in reasonable detail, of the Third Party Claim promptly (and in any event within 10 business days) after receipt by such Indemnitee of written notice of the Third Party Claim; provided, however, that failure to give such notification shall not affect the indemnification provided hereunder except to the extent that the defense or conduct of such Third Party Claim by the Indemnifying Party shall have been actually and materially prejudiced as a result of such failure (except that the Indemnifying Party shall not be liable for any expenses incurred during the period in which the Indemnitee failed to give such notice); provided further, however, that in no event shall such failure to notify the Indemnifying Party (i) constitute prejudice suffered by the Indemnifying Party if it has

otherwise received notice of the Third Party Claim or (ii) relieve it from any liability or obligation that it may otherwise have to such Indemnitee. Thereafter, the Indemnitee shall deliver to the Indemnifying Party, promptly (and in any event within 10 business days) after the Indemnitee's receipt thereof, copies of all notices and documents (including court papers) received by the Indemnitee relating to the Third Party Claim.

(b) (i) If a Third Party Claim is made against an Indemnitee, the Indemnifying Party shall be entitled to participate in the defense thereof and, if it so chooses and acknowledges in writing its obligation to indemnify the Indemnitee therefor, to assume the defense thereof with counsel selected by the Indemnifying Party, provided that such counsel is not reasonably objected to by the Indemnitee, and, thereafter, the Indemnifying Party shall not be liable to the Indemnitee for legal or other expenses subsequently incurred by the Indemnitee in connection with the defense thereof. If the Indemnifying Party elects to assume the defense of a Third Party Claim pursuant to this subsection (b)(i), the Indemnitee shall have the right to participate in the defense thereof and to employ counsel, at its own expense, separate from the counsel

employed by the Indemnifying Party, it being understood that the Indemnifying Party shall have full control of such defense, and the Indemnifying Party shall be liable for the reasonable fees and expenses of counsel employed by the Indemnitee for any period during which the Indemnifying Party has failed to assume the defense thereof.

(ii) Notwithstanding subsection (b)(i) of this Section 5.07, if the Indemnitee reasonably believes that a Third Party Claim could lead to a material adverse effect on its business, it shall be entitled to retain control of (and the related Indemnifying Party shall not be entitled to assume), or to reassert control over, the defense of the claim and shall be entitled to be reimbursed for its reasonable out-of-pocket expenses attributable to such defense. If the Indemnitee elects to retain control of, or to reassert control over, the defense of a Third Party Claim pursuant to this subsection (b)(ii), the Indemnifying Party shall have the right to participate in the defense thereof and to employ counsel, at its own expense, separate from the counsel employed by the Indemnitee, it being understood that the Indemnitee shall have full control of such defense.

(c) If the Indemnifying Party elects to assume the defense of any Third Party Claim pursuant to subsection (b)(i) of this Section 5.07, all of the Indemnitees shall cooperate with the Indemnifying Party in the defense or prosecution thereof. If the Indemnitee elects to retain control of, or to reassert control over, the defense of any Third Party Claim pursuant to subsection (b)(ii) of this Section 5.07, the Indemnifying Party shall cooperate with the Indemnitee in the defense or prosecution thereof. Such cooperation shall include the retention and, upon the Indemnitee's or Indemnifying Party's request, as applicable, the provision to such party of records and information which are reasonably relevant to such Third Party Claim and making employees available on a mutually convenient basis to provide additional information regarding any material provided hereunder.

(d) Notwithstanding the foregoing, the Indemnifying Party shall not be entitled to assume the defense of any Third Party Claim (and shall be liable for the reasonable fees and expenses of counsel incurred by the Indemnitee in defending such Third Party Claim) if the Third Party Claim seeks an order, injunction or other equitable relief or relief for other than money damages against the Indemnitee which the Indemnitee reasonably determines in good faith, after conferring with its counsel, cannot be separated from any related claim for money damages. If such equitable relief or other relief portion of the Third Party Claim can be so separated from that for money damages, the Indemnifying Party shall be entitled to assume the defense of the portion relating to money damages.

(e) Notwithstanding the foregoing, the Indemnifying Party shall not be entitled to assume the defense of any Third Party Claim (and shall be liable for the reasonable fees and expenses of counsel incurred by the Indemnitee in defending such Third Party Claim) if the Indemnitee reasonably determines in good faith, after conferring with its counsel, that the Indemnitee has available to it one or more defenses or counterclaims that are inconsistent with one or more of those that may be available to the Indemnifying Party in respect of such Third Party Claim.

(f) Whether or not the Indemnifying Party shall have assumed the defense of a Third Party Claim, in no event will the Indemnitee admit any liability with respect to, or settle, compromise or discharge, such Third Party Claim without the Indemnifying Party's prior written consent (which consent shall not be unreasonably withheld or delayed); provided, however, that the Indemnitee shall have the right to settle, compromise or discharge such Third Party Claim without the consent of the Indemnifying Party if the Indemnitee releases in writing the Indemnifying Party from its indemnification obligation hereunder with respect to such Third Party Claim and such settlement,

compromise or discharge would not otherwise adversely affect the Indemnifying Party. If the Indemnifying Party shall have assumed the defense of a Third Party Claim (and the Indemnitee shall not have reasserted control over the defense of such claim pursuant to Section 5.07(b)(ii)), the Indemnitee shall agree to any settlement, compromise or discharge of a Third Party Claim that the Indemnifying Party may recommend and that by its terms does not obligate the Indemnitee to pay any of the liability in connection with such Third Party Claim, releases the Indemnitee completely and unconditionally in connection with such Third Party Claim and does not provide for injunctive or other nonmonetary relief affecting the Indemnitee.

SECTION 5.08 Indemnification Payments. Indemnification required by this Article V shall be made by prompt periodic payments of the amount thereof during the course of the investigation, preparation or defense, as and when bills are received or loss, liability, claim, damage, cost or expense is incurred.

SECTION 5.09 Defaults. In the event that any obligation of any Indemnifying Party to indemnify an Indemnitee as required by Sections 5.02, 5.03, 5.04 and

5.05 proves to be uncollectible by the Indemnitee despite reasonable collection efforts (a "Defaulted Payment Obligation"), such Defaulted Payment Obligation shall be treated as a Shared Liability and shall be shared by the Company and the Distributed Companies as provided in clause (b) of Sections 5.02, 5.03, 5.04 and 5.05; provided, however, that for purposes of calculating each non-defaulting party's Pro Rata Share of such Shared Liability, "Pro Rata Share" for each non-defaulting party shall be calculated as the fraction (a) the numerator of which is such party's Pro Rata Share and (b) the denominator of which is the sum of each non-defaulting party's Pro Rata Share. Defaulted Payment Obligations shall count toward the limit on each party's Shared Liabilities set forth in the second proviso to Sections 5.02, 5.03, 5.04 and 5.05, as applicable.

SECTION 5.10 Tax Adjustments. The amount of any Indemnifiable Loss shall be (i) increased by the amount of any net Tax cost actually incurred by the Indemnitee arising from any payments required by this Article V (other than this Section 5.10) and received from the Indemnifying Party, together with such additional amounts as are necessary so that the aggregate payments received from the Indemnifying Party on account of such Indemnifiable Loss, net of any such net Tax cost and any net Tax cost actually incurred by the Indemnitee as a result of the receipt or accrual of such additional amounts, is equal to the amount of such Indemnifiable Loss; and (ii) reduced by the amount of any net Tax benefit actually realized by the Indemnitee arising from the incurrence or payment of any such Indemnifiable Loss; provided however, that in the event such net Tax benefit is subsequently reduced as a result of the carryback of any other Tax benefit, or disallowed, the Indemnifying party shall promptly pay the Indemnitee the amount of such reduction or disallowance. For purposes of this Section 5.10, a net Tax benefit shall be deemed to be "actually realized" only to the extent of the excess of (i) the aggregate amount of Taxes that would have been shown as due and payable on the U.S. federal, state and local income Tax returns of the Indemnitee in the taxable period in which such net Tax benefit is actually realized if such Indemnifiable Loss had not been incurred, and no payment had been made in respect of such Indemnifiable Loss by the Indemnifying Party over (ii) the aggregate amount of Taxes actually shown as due and payable on such Tax returns.

SECTION 5.11 MCI Agreement. Notwithstanding Sections 5.01, 5.02, 5.03, 5.04 and 5.05, each of the parties hereto agrees to indemnify and hold the other parties hereto harmless for any Liability under the MCI Agreement attributable to the failure of such party to meet the required targets under the MCI Agreement set forth on Schedule 5.11.

SECTION 5.12 Survival of Indemnities. The obligations of the parties under this Article V shall survive the sale or other transfer by any of them of any Assets or businesses or the assignment by any of them of any Liabilities, with respect to any Indemnifiable Loss of any Indemnitee related to such Assets, businesses or Liabilities.

ARTICLE VI
COVENANTS

SECTION 6.01 Provision of Corporate Records. Prior to or as promptly as practicable after the Distribution Time, the Company shall deliver to each Distributed Company copies of, or, if in the possession of such Distributed Company or its Subsidiaries, such Distributed Company shall retain, all corporate books and records and the relevant portions (or copies thereof) of all corporate books and records relating directly and primarily to such Distributed Company's Assets, such Distributed Company's Business, or such Distributed Company's Liabilities, including, in each case, all agreements, litigation files and government filings, whether or not active. From and after the Distribution Time, all such books, records and other items or such copies thereof shall be the property of such Distributed Company; provided however, that nothing in this Section 6.01 shall preclude the Company from retaining duplicates of all such corporate records that are delivered to a Distributed Company.

SECTION 6.02 Access to Information. From and after the Distribution Time each party hereto shall afford to each other party and their respective authorized accountants, counsel and other designated representatives reasonable access and duplicating rights (at such other party's expense) during normal business hours and upon reasonable advance notice, subject to the confidentiality provisions hereof and any additional appropriate restrictions for classified, privileged or confidential information, to all Information within the possession or control of such party or to which it has access relating to the business, Assets or Liabilities of such other party as they existed prior to the Distribution Time or relating to or arising in connection with the relationship between the Retained Business, on the one hand, and the Distributed Companies' Businesses, on the other hand, on or prior to the Distribution Time, insofar as such access is reasonably required for a reasonable purpose. Without limiting the foregoing, Information may be requested under this Section 6.02 for audit, accounting, claims, litigation and Tax purposes, as well as for purposes of fulfilling disclosure and reporting obligations.

SECTION 6.03 Retention of Records. Except as provided in this Agreement or any of the Ancillary Agreements or as otherwise agreed in writing, if any Information relating to the business, Assets or Liabilities of a party hereto, as they existed prior to the Distribution Time or as they are transferred, assumed or imposed pursuant to this Agreement, is retained by one of the other parties hereto, the party retaining such Information shall, and shall cause its Subsidiaries to, retain all such Information in such party's possession or under its control until such Information is at least ten years old except that if, prior to the expiration of such period, the party retaining such information wishes to destroy or dispose of any such Information that is at least three years old, prior to destroying or disposing of any of such Information, (a) such party shall provide no less than 30 days' prior written notice to the other party, specifying the Information proposed to be destroyed or disposed of and (b) if, prior to the scheduled date for such destruction or disposal, the other party requests in writing

that any of the Information proposed to be destroyed or disposed of be delivered to such other party, the party proposing to dispose of or destroy such Information shall arrange for the delivery of the requested Information to a location specified by, and at the expense of, the requesting party.

SECTION 6.04 Witness Services. From and after the Distribution Time, each of the parties hereto shall use commercially reasonable efforts to make available to each other party hereto, upon reasonable written request, its and its Subsidiaries' officers, directors, employees and agents as witnesses to the extent that (i) such persons may reasonably be required in connection with the prosecution, investigation or defense of any Action or threatened Action in which the requesting party may from time to time be involved and (ii) there is no conflict in the Action or threatened Action between the requesting party and the other party.

SECTION 6.05 Reimbursement. Except to the extent otherwise contemplated by any Ancillary Agreement, a party providing books and records, access to Information or witness services to the other party under this Article VI shall be entitled to receive from the recipient, upon the presentation of invoices therefor, payments for supplies, disbursements and other out-of-pocket expenses and direct and indirect costs of employees, as may be reasonably incurred in providing such books and records, access to Information or witness services.

SECTION 6.06 Confidentiality.

(a) Each party hereto shall keep, and shall cause its Representatives to keep, the other party's Information strictly confidential and will disclose such Information only to such of its Representatives who need to know such Information and who agree to be bound by this Section 6.06 and not to disclose such Information to any other Person or entity. Without the prior written consent of the other party, each party and its Representatives shall not disclose the other party's Information to any Person or entity except as may be required by law or judicial process or in connection with the enforcement of its rights under this Agreement or any of the Ancillary Agreements and, in each case, in accordance with this Section 6.06. Each party agrees to be responsible for any breach of this confidentiality provision by any of its Representatives.

(b) In the event that any party hereto or any of its Representatives becomes legally compelled (by deposition, interrogatory, request for documents, subpoena, civil investigative demand or similar process), or determines that it is necessary in connection with the enforcement of its rights under this Agreement or any of the Ancillary Agreements, to disclose all or any part of the other party's Information, the receiving party or its Representatives shall promptly notify the other party of such compulsion or determination in writing, and consult with and assist the other party in seeking a protective order or request for other appropriate remedy. In the event that such protective order or other

remedy is not obtained or the other party waives compliance with the terms hereof, such receiving party or its Representatives, as the case may be, shall disclose only that portion of the Information which, in the opinion of the receiving party's outside counsel, is legally required to be disclosed, and shall exercise all commercially reasonable efforts to assure that confidential treatment will be accorded such Information by the Persons or entities receiving such Information. The providing party shall be given an opportunity to review the Information prior to disclosure.

SECTION 6.07 Further Assurances. In case at any time after the Distribution Time any further action is reasonably necessary or desirable to carry out the purposes of this Agreement and the Ancillary Agreements, the proper officers at such time of each party to this Agreement shall promptly take all such action. Without limiting the foregoing, the Company and the Distributed Companies or their respective Subsidiaries, as appropriate, shall use commercially reasonable efforts to obtain all consents and approvals, to enter into all agreements and to make all filings and applications that may be required or are reasonably necessary for the consummation of the Transactions, including, without limitation, all applicable governmental and regulatory filings.

ARTICLE VII
INSURANCE

SECTION 7.01 General. Except as provided in this Article, the Company shall keep in effect all policies under its Insurance Program as of the date hereof insuring the Distributed Companies' Assets and the operations of the Distributed Companies' Businesses until 12:00 midnight (Eastern time) on the Distribution Date, except to the extent that a Distributed Company shall have earlier obtained appropriate coverage and notified the Company in writing to that effect. Except for the Transferred Policies (as defined below), beginning at 12:01 a.m. (Eastern time) on the day following the Distribution Date, the Distributed Companies will cease to be insured under all policies in the Company's Insurance Program. Each Distributed Company understands that the effect of these actions will be to eliminate insurance coverage under the Insurance Program for future occurrences under such Policies, and in some cases (as set forth in Section 7.03(b)), for prior occurrences that might have given or may give rise to liabilities for which such Distributed Company and its Affiliates would be responsible.

SECTION 7.02 Distributed Companies' Insurance.

(a) Each Distributed Company will purchase and pay for the types and amounts of insurance coverage that it reasonably deems appropriate and sufficient for the period beginning on and continuing after the Distribution Date, including Broad Form Contractual Liability insurance coverage as to such Distributed Company's indemnity obligations set forth in this Agreement.

(b) The Company shall transfer, on or prior to the Distribution Date, the Policies in the Company's Insurance Program listed on Schedule 7.02(b) (the "Transferred Policies") to certain of the Distributed Companies designated as Transferees on such schedule.

(c) Each Distributed Company agrees that the Company has made no warranty, expressed or implied, and no representation that the insurance described in Sections 7.01, 7.02(a) or 7.02(b) above is or will be adequate or sufficient to meet such Distributed Company's current or future insurance needs.

SECTION 7.03 Access to the Company's Insurance Program and to the Transferred Policies.

(a) Except as provided in Section 7.03(b), each Distributed Company and its Affiliates shall have access through the Company after the Distribution Date to such coverages and limits as may be available under the Company's Insurance Program for Covered Claims occurring prior to the Distribution Date. Such access shall be subject to available coverage and to all of the terms, conditions, exclusions, retentions and limits of such Policies.

(b) The Distributed Companies and their Affiliates' access to the Company's Insurance Program as provided in Section 7.03(a) hereof shall be limited as to Policies listed on Schedule 7.03(b) in that the Distributed Companies shall have no access to any insurance provided by such Policies after the Distribution Date other than for Covered Claims the Company has reported to its carriers or underwriters as of the Distribution Date.

(c) The Company and its Affiliates shall have access through the relevant Distributed Company after the Distribution Date to coverages and limits under the Transferred Policies to the extent specified in Schedule 7.02(b). Such access shall be subject to available coverage and to all the terms, conditions, exclusions, retentions and limits on such Transferred Policies.

SECTION 7.04 Insurance Recoveries.

(a) The Company shall use reasonable efforts to obtain Recoveries for the Distributed Companies and their Affiliates from the Company's insurance carriers for coverage available under Section 7.03 and shall keep the Distributed Companies reasonably informed of the Company's efforts under this Section 7.04. The Company will reimburse the Distributed Companies for any Recovery obtained by it on behalf of such Distributed Company or Affiliate thereof pursuant to such claims; provided, however, that Special Insurance Recoveries shall be shared between the Company and the relevant Distributed Company in the same manner as any net recoveries of an Acquisition Claim of such Distributed Company (payable at that time) would be shared between the Company and such

Distributed Company pursuant to Section 2.09, including that, if the net recoveries from an Acquisition Claim of such Distributed Company are not required to be shared in any manner with the Company pursuant to Section 2.09, any Special Insurance Recoveries related to such Distributed Company should be entirely payable to it. Any Distributed Company receiving a Recovery in its entirety under this Section 7.04 shall pay all costs incurred by the Company after the Distribution Date in making the related claim pursuant to this Section 7.04, including the salaries of the Company's officers and employees based on the portion of time spent on such claims ("Recovery Costs"), and such Recovery Costs incurred in pursuing the claim may be deducted from the Recovery. As to any Recovery Costs incurred in relation to Special Insurance Recoveries, the party or parties receiving such Special Insurance Recoveries, or a portion thereof, shall bear the related Recovery Costs in proportion to the share of the Special Insurance Recoveries such party receives. Each Distributed Company agrees to make available to the Company such of its employees as the Company may reasonably request as witnesses or deponents in connection with the Company's management of claims, at such Distributed Company's sole cost and expense notwithstanding Sections 6.04 and 6.05. Each Distributed Company agrees that, if the Company has paid a Recovery to it for such a claim and such Distributed Company receives proceeds from any other person with respect to such claim, it will pay over to the Company the amount of proceeds it has received.

(b) In relation to the Transferred Policies, the relevant Distributed Company shall use reasonable efforts to obtain recoveries for the Company and its Affiliates from the Distributed Company's insurance carrier for coverage available under the Transferred Policies and shall keep the Company reasonably informed of such Distributed Company's efforts under this Section 7.04. The Distributed Company will reimburse the Company for any Recovery obtained by it on behalf of the Company or an Affiliate thereof pursuant to such claims. The Company shall pay all costs incurred by the Distributed Company after the Distribution Date in making any claim pursuant to this Section 7.04, including the salaries of the Distributed Company's officers and employees based on the portion of time spent on such claims, and such costs

incurred in pursuing a claim may be deducted from any Recovery for such claim. The Company agrees to make available to the Distributed Company such of its employees as the Distributed Company may reasonably request as witnesses or deponents in connection with the Distributed Company's management of claims, at the Company's sole cost and expense notwithstanding Sections 6.04 and 6.05. The Company agrees that, if the Distributed Company has paid a Recovery to it for such a claim and the Company receives proceeds from any other person with respect to such claim, it will pay over to the Distributed Company the amount of proceeds it has received.

SECTION 7.05 Insurance Representations. Each Distributed Company hereby represents and warrants to the Company that no representation by such Distributed Company (or any of its officers, directors or Subsidiaries) relating to information underlying any Insurance Policy of the Company contains an untrue statement of material fact or omits

to state a material fact necessary to make a statement contained therein, in light of the circumstances under which they were made, not misleading with respect to such information.

SECTION 7.06 Assignment. Except to the extent that the Transferred Policies are considered to be assigned by the Company to the relevant Distributed Company, nothing in this Agreement shall be deemed to constitute (or to reflect) an assignment of any insurance policy or insurance benefit.

SECTION 7.07 Deductibles and Maximums.

(a) To the extent that there are deductible amounts or retentions applicable to potential insurance recoveries for claims of the Company or a Distributed Company that are not per-occurrence deductibles, the Company or the relevant Distributed Company (as to any deductibles in relation to the Transferred Policies) shall allocate such deductibles or retentions in such manner as the Company or a Distributed Company, as applicable, determines, in good faith, is fair and reasonable. For purposes of this Section 7.06, the parties agree that it is fair and reasonable to allocate the deductibles, if any, first to any claims based on recklessness, bad faith or wilful misconduct.

(b) To the extent that the Recoveries for any particular group of claims of the Company or a Distributed Company may be subject to overall policy limits, the Company or the relevant Distributed Company (as to any policy maximums in relation to the Transferred Policies) shall allocate Recoveries in such manner as the Company or Distributed Company, as applicable, determines, in good faith, is fair and reasonable.

SECTION 7.08 Conflicts Between Article VII and the Company's Insurance Program. Any provision of this Agreement that conflicts with any term or provision of the Company's applicable insurance policies shall be void.

ARTICLE VIII
CONDITIONS

SECTION 8.01 Conditions to Obligations of the Company. The obligation of the Company to consummate the Distributions hereunder shall be subject to the satisfaction or waiver of each of the following conditions:

(a) All of the transactions contemplated by Article II hereof to occur prior to the Distribution Time shall have been consummated.

(b) The Distribution Shares to be issued in the

Distributions shall have been approved for trading on the NASDAQ, subject only to official notice of issuance.

(c) All filings required to be made prior to the Distribution Time with, and all consents, approvals and authorizations required to be obtained prior to the Distribution Time from, any government or any court, arbitral tribunal, administrative agency or commission or other regulatory authority, agency or commission, governmental or otherwise, in connection with the consummation of the Preliminary Transactions, the Distributions and any other transaction contemplated hereby shall have been made or obtained, except where the failure to make or obtain the same would not, individually or in the aggregate, have a material adverse effect on the business, properties, results of operations or financial condition of the Company, the Distributed Companies or any of their respective Subsidiaries, or on the ability of any thereof to consummate the transactions contemplated hereby, or to perform its obligations under this Agreement or any of the Ancillary Agreements to which it is or will be a party.

(d) Each of the Ancillary Agreements shall have been executed and delivered by each of the parties thereto and shall be in full force and effect in accordance with its terms.

(e) Each of the registration statements on Forms S-1 under the Securities Act filed with the SEC by the Distributed Companies in connection with the Distributions shall have become effective under the Exchange Act, no stop order suspending the effectiveness thereof shall have been issued and no proceedings for that purpose shall have been initiated by the SEC; and the Information Statements shall have been or shall be simultaneously mailed to holders of Distribution Shares in accordance with the rules, regulations and policies of the SEC.

(f) No statute, rule or regulation or temporary restraining order, preliminary or permanent injunction or other order issued by any court of competent jurisdiction or other legal restraint or prohibition shall be in effect that prohibits consummation of the Preliminary Transactions or the Distributions.

(g) All conditions to the Tender Offer shall have been satisfied or waived by the Company, and the Tender Offer shall have been consummated prior to or on the Distribution Date.

(h) The Company and each of the Distributed Companies shall have received an opinion of Wilmer, Cutler & Pickering, counsel to the Company, that for U.S. federal income tax purposes the Distributions will qualify as tax-free spin-offs under Section 355 of the Code and will not be taxable under Section 355(e) of the Code. In rendering such opinion, such counsel shall be entitled to rely on certain assumptions and representations provided by the Company, the Distributed Companies and CDR-PC and certain other information, data, documentation and other materials that Wilmer, Cutler & Pickering deems necessary.

ARTICLE IX
DISPUTE RESOLUTION

SECTION 9.01 Mediation and Binding Arbitration. Except as may

be expressly provided in any of the Ancillary Agreements or in any other agreement between the parties entered into pursuant hereto, if a dispute, controversy or claim (collectively, a "Dispute") between the Company and any of the Distributed Companies or any of their respective Affiliates arises out of or relates to this Agreement, any Ancillary Agreement, or any other agreement entered into pursuant hereto or thereto, including, without limitation, the breach, termination, enforceability, interpretation or validity of any such agreement or any matter involving an Indemnifiable Loss, the Company and such Distributed Company agree to use the following procedures, in lieu of either party pursuing other available remedies and as the sole and exclusive remedy (except as provided in Section 10.11 below), to resolve the Dispute.

SECTION 9.02 Initiation of Negotiation. A party seeking to initiate the procedures shall provide written notice to the other party, describing briefly the nature of the Dispute. A meeting shall be held between the parties within 10 days of the receipt of such notice, attended by executives who have decision-making authority regarding the Dispute, to attempt in good faith to negotiate a resolution of the Dispute.

SECTION 9.03 Submission to Mediation. If, within 30 days after such meeting, the parties have not succeeded in negotiating a resolution of the Dispute, the parties agree to submit the Dispute at the earliest possible date to mediation conducted in accordance with the Commercial Mediation Rules of the AAA, and to bear equally the costs of the mediation. The parties agree to participate in good faith in the mediation and negotiations related thereto for a period of 30 days or such longer period as they may mutually agree following the initial mediation session (the "Mediation Period").

SECTION 9.04 Selection of Mediator. The parties will jointly appoint a mutually acceptable and neutral mediator. If they are unable to agree upon such appointment within 20 days from the conclusion of the negotiation period, a mediator shall be appointed by the AAA pursuant to the Commercial Mediation Rules of the AAA.

SECTION 9.05 Treatment of Negotiation and Mediation. All negotiations and mediations pursuant to this Article shall be treated as compromise and settlement negotiations for purposes of Rule 408 of the Federal Rules of Evidence and comparable state rules.

SECTION 9.06 Arbitration.

(a) Notwithstanding the foregoing provisions of this Article IX, at the end of the Mediation Period any party may submit the matter to binding arbitration

conducted in accordance with the Commercial Arbitration Rules of the AAA, by one or three arbitrators(s) selected in accordance with the provisions of Section 9.06(b). Any arbitration proceeding hereunder shall be held in the city of New York, New York, and shall be governed by the Federal Arbitration Act, 9 U.S.C. ss.ss. 1-16, and judgment upon the award rendered by the arbitrator(s) may be entered by any court having jurisdiction thereof or having jurisdiction over the relevant party or its assets. Any arbitral award hereunder shall be in writing, state the reasons for the award and be final and binding on the parties.

(b) The parties shall seek to appoint jointly a mutually acceptable sole arbitrator. If the parties cannot agree on an acceptable sole arbitrator within 10 days after the commencement of the arbitration, the Dispute shall be heard by a panel of three arbitrators, one appointed by each of the parties within 20 days after commencement of the arbitration, and the third arbitrator selected by the other two arbitrators within 15 days of appointment of the first two arbitrators. If either side fails to appoint an arbitrator within 20 days after the commencement of the

arbitration, then that arbitrator shall be appointed by the AAA, which shall promptly notify the parties of such appointment. If the first two arbitrators appointed fail to appoint a third arbitrator within the 15-day period prescribed above, then the AAA shall appoint the third arbitrator and shall promptly notify the parties of the appointment. References herein to the "Arbitrator" shall mean the sole arbitrator or the three-arbitrator panel, as the case may be.

(c) In the event the Dispute involves (i) valuation of a liability under (A) this Agreement, (B) any Ancillary Agreement or (C) any other agreement entered into by the parties pursuant to this Agreement or any Ancillary Agreement, (ii) an amount in controversy in a Dispute or (iii) the amount of damages following a determination of liability, the arbitration shall proceed in the following manner: Each party shall submit to the Arbitrator and exchange with each other, on a schedule to be determined by the Arbitrator, a proposed valuation, amount or damages, as the case may be, together with a statement, including all supporting documents or other evidence upon which it relies, setting forth such party's explanation as to why its proposal is reasonable and appropriate. The Arbitrator, within 15 days of receiving such proposals and supporting documents, shall choose between the two proposals and shall be limited to awarding only one or the other of the two proposals submitted.

(d) Cost of Arbitration. The costs of arbitration shall be apportioned between the parties to the arbitration as determined by the Arbitrator in such manner as the Arbitrator deems reasonable taking into account the circumstances of the case, the conduct of the parties during the proceeding and the result of the arbitration.

(e) Arbitration Period. Any arbitration proceeding shall be concluded in a maximum of six (6) months from the commencement of the arbitration. The parties involved in the proceeding may agree in writing to extend the arbitration period if necessary to appropriately resolve the Dispute.

SECTION 9.07 Confidentiality. All negotiation, mediation and arbitration proceedings under this Article shall be treated as confidential Information in accordance with the provisions of Section 6.06 hereof. Any mediator or the Arbitrator shall be bound by an agreement containing confidentiality provisions at least as restrictive as those contained in Section 6.06 hereof.

SECTION 9.08 Notices. All notices by one party to the other party in connection with the dispute resolution provisions set forth in this Article shall be in accordance with the provisions of Section 10.05 hereof.

SECTION 9.09 Consolidation. The Arbitrator may consolidate an arbitration under this Agreement with any arbitration arising under or relating to the Ancillary Agreements or any other agreement between the parties entered into pursuant hereto, as the case may be, if the subject of the Disputes thereunder arise out of or relate essentially to the same set of facts or transactions. Such consolidated arbitration shall be determined by the arbitrator appointed for the arbitration proceeding that was commenced first in time.

ARTICLE X
MISCELLANEOUS

SECTION 10.01 Modification, Amendment or Termination. This Agreement may not be modified, amended or terminated except by an agreement in writing signed by each of the parties hereto and approved by the board of directors of each of the parties hereto; provided, however, that any modification or amendment to this Agreement that is adverse to the rights or

interests of CDR-PC, as determined by those directors of the Company that are not employed by either the Company or CD&R, in their good faith reasonable judgment, and any termination of this Agreement shall not be effective unless such modification, amendment or termination was approved by an affirmative vote of not less than three-fourths of the members of the board of directors of the Company; provided further, however, that the preceding proviso shall apply only for so long as CDR-PC has the right to designate at least two nominees to the board of directors of the Company pursuant to Section 4.01(b) of the Investment Agreement; provided further, however, that Article V shall not be terminated or amended after the Distribution Time in respect of the third party beneficiaries thereto without the consent of such persons.

SECTION 10.02 Waiver; Remedies. The conditions to the Company's obligation to consummate the Distributions are for the sole benefit of the Company and may be waived by the Company in whole or in part in its sole discretion. No delay on the part of the Company or the Distributed Companies in exercising any right, power or privilege hereunder will operate as a waiver thereof, nor will any waiver on the part of either the Company or the Distributed Companies of any right, power or privilege hereunder operate as a waiver of any other right, power or privilege hereunder, nor will any single or partial

exercise of any right, power or privilege hereunder preclude any other or further exercise thereof or the exercise of any other right, power or privilege hereunder. Unless otherwise provided, the rights and remedies herein provided are cumulative and are not exclusive of any rights or remedies which the parties may otherwise have at law or in equity.

SECTION 10.03 Counterparts. For the convenience of the parties, this Agreement may be executed in any number of separate counterparts, each such counterpart being deemed to be an original instrument, and all such counterparts shall together constitute the same agreement.

SECTION 10.04 Notices. Any notice, request, instruction or other communication to be given hereunder by any party to another shall be in writing and shall be deemed to have been duly given (i) on the date of delivery if delivered personally, or by telefacsimile, upon confirmation of receipt, (ii) on the first business day following the date of dispatch if delivered by Federal Express or other nationally reputable next-day courier service with proof of delivery, or (iii) on the fifth business day following the date of mailing if delivered by registered or certified mail, return receipt requested, postage prepaid. All notices hereunder shall be delivered as set forth below, or pursuant to such other instructions as may be designated in writing by the party to receive such notice.

(a) If to Printco:

Workflow Management, Inc.
[contact information]

(b) If to Schoolco:

School Specialty, Inc.
[contact information]

(c) If to Techco:

Aztec Consulting, Inc.
[contact information]

(d) If to Travelco:

Navigant International, Inc.
[contact information]

(e) If to the Company:

U.S. Office Products Company
1025 Thomas Jefferson Street, N.W., Suite 600 East
Washington, D.C. 20007-5490
Attention: Mark D. Director, Esq.
Kathleen Delaney, Esq.
Telefacsimile: (202) 339-6733

with copies to:

Clayton, Dubilier & Rice, Inc.
375 Park Avenue
18th Floor
New York, NY 10152
Attention: Brian D. Finn
Telefacsimile: (212) 407-5200

SECTION 10.05 Entire Agreement. This Agreement and the Ancillary Agreements (including Exhibits, Annexes and Schedules hereto and thereto) constitute the entire agreement, and supersede all other prior agreements, understandings, representations and warranties, both written and oral, between the parties, with respect to the subject matter hereof and thereof.

SECTION 10.06 Certain Obligations. Whenever any Ancillary Agreement requires any of the Subsidiaries of any party to such Ancillary Agreement to take any action, this Agreement will be deemed to include an undertaking on the part of such party to cause such Subsidiary to take such action.

SECTION 10.07 Assignment. This Agreement shall be assignable in whole in connection with a merger or consolidation or the sale or transfer of all or substantially all the Assets or stock of a party hereto so long as the resulting, surviving or transferee entity assumes all the obligations of the relevant party hereto by operation of law or pursuant to an agreement in form and substance reasonably satisfactory to the other party. Otherwise, this Agreement shall not be assignable, in whole or in part, directly or indirectly, by any party hereto without the prior written consent of the other party, and any attempt to assign any rights or obligations arising under this Agreement without such consent shall be void.

SECTION 10.08 Captions. The Article, Section and paragraph captions herein are for convenience of reference only, do not constitute part of this Agreement and shall not be deemed to limit or otherwise affect any of the provisions hereof.

SECTION 10.09 Severability. If any provision of this Agreement or any of the Ancillary Agreements or the application thereof to any person or circumstance is determined to be invalid, void or unenforceable by a court of competent jurisdiction or by one or more arbitrator(s), the remaining provisions thereof, or the application of such provision to persons or circumstances other than those as to which it has been held invalid or unenforceable, shall remain in full force and effect and shall in no way be affected, impaired or invalidated thereby, so long as the economic or legal substance of the transactions contemplated thereby is not affected in any manner adverse to any party. Upon any such determination, the parties shall negotiate in good faith in an effort to agree upon a suitable and equitable substitute provision to effect the original intent of the parties.

SECTION 10.10 Equitable Relief. No provision of this Agreement shall preclude any party from seeking equitable relief to prevent any immediate, irreparable harm to its interests, including multiple breaches of this Agreement or the Ancillary Agreements by another party. Otherwise, the procedures set forth in Article IX regarding dispute resolution are exclusive and shall be fully exhausted prior to the initiation of litigation. Any party to this Agreement may also seek specific enforcement of the Arbitrator's decision under Article IX; the opposing party's only defense to such a request for specific performance shall be fraud by or on the Arbitrator.

SECTION 10.11 Third Party Beneficiaries. Except as provided in Article V relating to Indemnitees and Sections 10.01 and 10.02 relating to modification, amendment and termination, this Agreement is solely for the benefit of the parties hereto and their respective Subsidiaries and Affiliates, directors and officers, and should not be deemed to confer upon third parties any remedy, claim, liability, reimbursement, claim of action or other right in excess of those existing without reference to this Agreement.

SECTION 10.12 Expenses. Except as otherwise set forth in this Agreement or any Ancillary Agreement, each party shall bear its own costs and expenses incurred after the Distribution Time.

SECTION 10.13 Exhibits and Schedules. The Exhibits and Schedules to this Agreement shall be construed with and as an integral part of this Agreement to the same extent as if the same had been set forth verbatim herein.

SECTION 10.14 Governing Law. This Agreement shall be governed by and construed in accordance with the internal laws of the State of Delaware applicable to contracts made and to be performed entirely within such state, without regard to the conflicts of law principles of such state.

SECTION 10.15 Consent to Jurisdiction. Each of the parties irrevocably submits to the exclusive jurisdiction of the state and federal courts of Delaware for the purposes of any suit, action or other proceeding arising out of this Agreement or any

transaction contemplated hereby. Each of the parties agree that service of any process, summons, notice or document by U.S. registered mail to such party's respective address set forth above shall be effective service of process for any action, suit or proceeding in Delaware with respect to any matters to which it has submitted to jurisdiction in this Section 10.17. Each of the parties irrevocably and unconditionally waives any objection to the laying of venue of any action, suit or proceeding arising out of this Agreement or the transactions contemplated hereby in the state and federal courts of Delaware, and hereby further irrevocably and unconditionally waives and agrees not to plead or claim in any such court that any such action, suit or proceeding brought in any such court has been brought in an inconvenient forum. This consent to jurisdiction provision does not, in any way, limit the force and effect of the requirements

set forth in Article IX regarding resolution of Disputes.

SECTION 10.16 Ancillary Agreements. This Agreement is not intended to address, and should not be interpreted to address, the matters specifically and expressly covered by the Ancillary Agreements.

SECTION 10.17 Survival of Agreements. Except as otherwise contemplated by this Agreement, all covenants and agreements of the parties contained in this Agreement shall survive the Distribution Time.

SECTION 10.18 Successors and Assigns. The provisions of this Agreement shall be binding upon, inure to the benefit of and be enforceable by the parties and their respective successors and permitted assigns.

IN WITNESS WHEREOF, the parties have caused this Agreement and Plan of Distribution to be duly executed as of the day and year first above written.

U.S. OFFICE PRODUCTS COMPANY

by

Name:
Title:

WORKFLOW MANAGEMENT, INC.

by

Name:

Title:

SCHOOL SPECIALTY, INC.

by

Name:
Title:

AZTEC TECHNOLOGY PARTNERS, INC.

by

Name:
Title:

NAVIGANT INTERNATIONAL, INC.

by

Name:
Title:

TAX INDEMNIFICATION AGREEMENT

THIS TAX INDEMNIFICATION AGREEMENT, dated as of , 1998, among Workflow Management, Inc., a Delaware corporation ("Workflow Management"), School Specialty, Inc., a Delaware corporation ("School Specialty"), Aztec Technology Partners, Inc., a Delaware corporation ("Aztec") and Navigant International, Inc., a Delaware corporation ("Navigant"). Workflow Graphics, School Specialty, Aztec and Navigant are hereinafter jointly referred to as the "Companies."

WITNESSETH

WHEREAS, U.S. Office Products Company, a Delaware Corporation ("USOP") and the Companies entered into an agreement dated as of , 1998 (the "Tax Allocation Agreement") to allocate the Tax burdens and benefits of transactions which occurred on or prior to the Distribution Date, and to provide for certain other tax matters, including the assignment of responsibility for the preparation and filing of Tax returns and the prosecution and defense of any Tax controversies; and

WHEREAS, pursuant to Section 10 of the Tax Allocation Agreement, the Companies are jointly and severally liable for and will jointly and severally indemnify, defend and hold USOP harmless from and against any Losses with respect to Taxes that result from or arise in connection with an Adverse Tax Act of any of the Companies or any of their respective Subsidiaries.

NOW, THEREFORE, in consideration of the mutual agreements contained herein, the Companies (each on its own behalf and on behalf of each of its Subsidiaries) hereby agree as follows:

SECTION 1
DEFINITIONS

As used in this Agreement, the following terms shall have the following meaning:

"Adverse Company" shall mean a Company that has or whose Subsidiary has committed an Adverse Tax Act.

"Adverse Tax Act" shall have the meaning assigned to such term in the Tax Allocation Agreement.

"Agreement" shall mean this Tax Indemnification Agreement.

"Aztec" shall have the meaning assigned to such term in the preamble to this Agreement.

"Companies" shall have the meaning assigned to such term in the preamble to this Agreement.

"Losses" shall have the meaning assigned to such term in the Tax Allocation Agreement.

"Market Capitalization" shall have the meaning assigned to such term in the Tax Allocation Agreement.

"Navigant" shall have the meaning assigned to such term in the preamble to this Agreement.

"Non-Adverse Company" shall mean a Company that has not and whose Subsidiaries have not committed an Adverse Tax Act.

"School Specialty" shall have the meaning assigned to such term in the preamble to this Agreement.

"Subsidiary" shall have the meaning assigned to such term in the Tax

Allocation Agreement.

"Tax" or "Taxes" shall have the meaning assigned to such term in the Tax Allocation Agreement.

"Tax Allocation Agreement" shall have the meaning assigned to such term in the recitals to this Agreement.

"USOP" shall have the meaning assigned to such term in the recitals to this Agreement.

"Workflow Management" shall have the meaning assigned to such term in the preamble to this Agreement.

SECTION 2
INDEMNIFICATION

(a) Workflow Management Indemnification. Workflow Management shall be liable for and shall indemnify, defend and hold the Non-Adverse Companies harmless from and against an amount equal to that which each of the Non-Adverse Companies pays to USOP pursuant to Section 10 of the Tax Allocation Agreement as a result of an Adverse Tax Act of Workflow Management or its Subsidiaries.

(b) School Specialty Indemnification. School Specialty shall be liable for and shall indemnify, defend and hold the Non-Adverse Companies harmless from and against an amount equal to that which each of the Non-Adverse Companies pays to USOP pursuant to Section 10 of the Tax Allocation Agreement as a result of an Adverse Tax Act of School Specialty or its Subsidiaries.

(c) Aztec Indemnification. Aztec shall be liable for and shall indemnify, defend and hold the Non-Adverse Companies harmless from and against an amount equal to that which each of the Non-Adverse Companies pays to USOP pursuant to Section 10 of the Tax Allocation Agreement as a result of an Adverse Tax Act of Aztec or its Subsidiaries.

(d) Navigant Indemnification. Navigant shall be liable for and shall indemnify, defend and hold the Non-Adverse Companies harmless from and against an amount equal to that which each of the Non-Adverse Companies pays to USOP pursuant to Section 10 of the Tax Allocation Agreement as a result of an Adverse Tax Act of Navigant or its Subsidiaries.

(e) Right of Contribution. With respect to any Adverse Tax Act, the Non-Adverse Companies shall have rights and obligations of contribution among themselves to the extent necessary to cause the payments by each Non-Adverse Company to USOP pursuant to Section 10 of the Tax Allocation Agreement as of any date, adjusted for payments received from the Adverse Company under Section 2(a) through 2(d) hereof and for payments made to, or received from, any other Non-Adverse Company under this Section 2(e), to be in proportion to the Non-Adverse Companies' respective Market Capitalizations.

SECTION 3
DISPUTE RESOLUTION

Any dispute, controversy or claim between the Companies or any of their respective Subsidiaries arising out of or relating to this Agreement shall be resolved (and costs shall be apportioned) pursuant to the procedures set forth in Article IX of the Distribution Agreement.

SECTION 4
CHOICE OF LAW; SUCCESSORS AND ASSIGNS

This Agreement shall be governed by and construed in accordance with the internal laws of the State of Delaware applicable to contracts made and to be performed entirely within such state, without regard to the conflicts of law principles of such state.

The provisions of this Agreement shall be binding upon, inure to the benefit of and be enforceable by the Companies and their respective successors and permitted assigns.

SECTION 5
ENTIRE AGREEMENT AND MODIFICATIONS

This Agreement contains the entire agreement among the Companies with respect to the subject matter hereof and supersedes all prior written Tax Indemnification agreements, memoranda, negotiations and oral understandings, if any, and may not be amended, supplemented or discharged except by performance or by an instrument in writing signed by all of the Companies.

SECTION 6
COUNTERPARTS

This Agreement may be executed simultaneously in two or more counterparts, each of which shall be deemed an original, but which together shall constitute one and the same instrument.

IN WITNESS WHEREOF, the Companies have duly executed this Agreement as of the date first above written.

WORKFLOW MANAGEMENT, INC.

By

Name:
Title:

Seal

Attest:

SCHOOL SPECIALTY, INC.

By

Name:
Title:

Seal

Attest:

AZTEC TECHNOLOGY PARTNERS, INC.

By

Name:
Title:

Seal

Attest:

NAVIGANT INTERNATIONAL, INC.

By

Name:
Title:

Seal

Attest:

EMPLOYEE BENEFITS SERVICES AND LIABILITIES AGREEMENT

This EMPLOYEE BENEFITS SERVICES AND LIABILITIES AGREEMENT dated as of ___________, 1998 (the "Benefits Agreement"), between U.S. OFFICE PRODUCTS COMPANY, a Delaware corporation (the "Company"), WORKFLOW MANAGEMENT, INC., a Delaware corporation and wholly owned subsidiary of the Company ("Printco"), SCHOOL SPECIALTY, INC., a Delaware corporation and wholly owned subsidiary of the Company ("Schoolco"), AZTEC TECHNOLOGY PARTNERS, INC., a Delaware corporation and wholly owned subsidiary of the Company ("Techco"), and NAVIGANT INTERNATIONAL, INC., a Delaware corporation and wholly owned subsidiary of the Company ("Travelco") pursuant to the agreement and plan of distribution dated as of ____________, 1998 (the "Distribution Agreement") among Company, Printco, Schoolco, Techco, and Travelco.

WHEREAS, the Board of Directors of the Company has determined that it is appropriate and desirable to enter into the Benefits Agreement as an Ancillary Agreement under the Distribution Agreement; and

WHEREAS, each of the Company, Printco, Schoolco, Techco, and Travelco has determined that it is necessary and desirable to allocate and assign responsibility for certain employee benefit liabilities in respect of the activities of the businesses of such entities on and following the Distribution Date.

NOW, THEREFORE, in consideration of the mutual promises and covenants contained herein, the Company, Printco, Schoolco, Techco, and Travelco agree as follows:

1. PURPOSE AND DEFINITIONS

a. Purpose. The purpose of this Benefits Agreement is to set forth the agreement of the Company, Printco, Schoolco, Techco, and Travelco regarding the allocation and assignment of the respective rights and obligations of each before and after the Distributions with respect to their current and former employees and with respect to benefits and compensation matters.

b. Definitions. In addition to the terms defined elsewhere in the text or in the Distribution Agreement, as used in this Benefits Agreement, the following terms have the following meanings:

"Distributed Company Employees" shall mean the Printco Employees, Schoolco Employees, Techco Employees, and Travelco Employees, collectively.

"Employee" shall mean, as to the Company and each Distributed Company, an individual who is employed (including an individual who is not actively employed because of an approved disability, lay-off with right of recall or an authorized leave of absence (or who is receiving salary continuation severance payments)) by the Company or the specified Distributed Company or any of their respective Subsidiaries (other than, for the Company, any Distributed Company or its Subsidiaries) immediately before the Distribution.

"ERISA" shall mean the Employee Retirement Income Security Act of 1974, as amended.

"Former Employee" shall mean a former employee of the

Company or the specified Distributed Company or any of their respective Subsidiaries (other than, for the Company, any Distributed Company or its Subsidiaries) whose employment terminated before the Distribution.

"Individual" shall mean each Employee and Former Employee. Solely for purposes of Section 3(b), "Individual" shall also include unsuccessful applicants for employment.

"Stand-Alone Plan" shall mean each benefit or compensation plan, program, policy, or arrangement currently or formerly maintained for the exclusive benefit of all or some Individuals with respect to the Company or the applicable Distributed Company.

2. EMPLOYEES. Effective as of the Distribution Date and unless otherwise provided by the Distribution Agreement, each Company Employee, Printco Employee, Schoolco Employee, Travelco Employee, and Techco Employee will remain an employee of his or her respective employer. Nothing contained in this Section 2 confers on any such person any right to continued employment, whether before or after the Distribution Date, nor does it detract from or otherwise amend any employment agreement currently in force, except as specifically noted.

3. GENERAL PRINCIPLES. Except as otherwise provided in this Benefits Agreement, as of the Distribution Date:

a. Each party will remain or become responsible for its respective Stand-Alone Plans.

b. The Company, Printco, Schoolco, Techco, and Travelco each will be allocated Liability for employment-related claims regardless of when filed (including, but not limited to, harassment and discrimination) based upon whether the claimant was at the time the claim arose, respectively, a Company Individual, Printco Individual, Schoolco Individual, Techco Individual, or Travelco Individual.

c. Except as specifically provided herein, as of and after the Distribution Date, all Liabilities with respect to employee benefit plans, programs, or arrangements relating to

(i) Company Former Employees that presently are Company liabilities will be retained by the Company, (ii) Printco Former Employees that presently are Company or Printco liabilities will be retained or assumed by Printco, as applicable, (iii) Schoolco Former Employees that presently are Company or Schoolco liabilities will be retained or assumed by Schoolco, as applicable, (iv) Techco Former Employees that presently are Company or Techco liabilities will be retained or assumed by Techco, as applicable, and (v) Travelco Former Employees that presently are Company or Travelco liabilities will be retained or assumed by Travelco, as applicable.

d. Except to the extent recognition of past service credit would result in a duplication of benefits, the Company, Printco, Schoolco, Techco, and Travelco each will give past service credit under its applicable benefit plans, programs, policies and arrangements to participants therein to the extent their past service credit was recognized under the comparable benefit plan, program, policy, or arrangement of the Company or its Subsidiaries in which the Employee participated immediately before the Distribution Date.

e. No provision of this Benefits Agreement requires any of the parties to continue any plan, program, policy, or arrangement for any period of time after the Distributions.

f. Each party will amend its respective plans, programs, policies, and arrangements (whether newly established, assumed, or retained) to the extent necessary to reflect the provisions of this Benefits Agreement.

g. Any Company Employee, Printco Employee, Schoolco Employee, Techco Employee, or Travelco Employee who continues in employment with the Company, Printco, Schoolco, Techco, or Travelco or any related Subsidiaries following the Distribution Date will not be deemed to have terminated employment solely as a result of the Distribution for purposes of any benefit or compensation plan, program, policy, or arrangement maintained by the Company, Printco, Schoolco, Techco, or Travelco.

h. The Company will release any third party beneficiary rights it may have to enforce employment agreements assumed or retained by the Distributed Companies (other than with respect to the Company's "Information," as defined in those agreements).

4. 401(k) PLAN

a. The Company will retain sponsorship of the U.S. Office Products 401(k) Retirement Plan (the "Company 401(k) Plan").

b. Effective as of or as soon as practicable after the Distribution, the Distributed Companies will each establish new qualified 401(k) plans covering each Distributed Company and all or substantially all of its Subsidiaries in the United States. Distributed Company Employees will cease participation in the Company 401(k) Plan effective as close in time before the Distribution Date as is reasonably practicable. Distributed Company Employees who have outstanding participant loans under the Company 401(k) Plan will be permitted to

continue making loan payments to the Company 401(k) Plan until such time as the loans are transferred to the Distributed Company's 401(k) Plan.

c. Upon receipt by the Company and each of the Distributed Companies of favorable determination letters from the Internal Revenue Service to the effect that a newly established plan meets the requirements for qualification under Section 401(a) of the Code (or as the parties otherwise mutually agree), the Company will cause to be transferred to the trusts established under the newly-established 401(k) plans, the respective account balances (including any related loans and qualified domestic relations orders) and related assets of that employer's Employees. Upon such transfer, Printco, Schoolco, Techco, and Travelco will assume the related liabilities.

5. MEDICAL PLANS

a. Effective as of the Distribution Date, each of the Distributed Companies will assume or retain sponsorship of their respective Stand-Alone Plans that are medical (including dental) plans and arrangements and will assume or retain responsibility for continuation health coverage under ERISA Section 601 et seq. with respect to their respective Individuals.

b. To the extent permitted under any applicable indemnity, health maintenance organization or stop-loss contracts, any newly established health plans will waive waiting periods, pre-existing conditions to the extent waived or satisfied under the applicable Stand-Alone Plan, and credit deductible/copayments satisfied by Employees, if any, who are transferring among the respective employers in connection with the Distributions. The Company will use its best efforts to assist the Distributed Companies in their negotiations with any third parties to accomplish the waiver of such waiting periods and pre-existing conditions and the crediting of such deductibles and co-payments.

6. CAFETERIA PLAN

a. The Company will amend the U.S. Office Products Cafeteria Compensation Plan (the "Company Cafeteria Plan") to provide for spinning off to each Distributed Company the portions of the Cafeteria Plan's obligations and credits that apply to that Distributed Company.

b. Effective as of the Distribution Date, each Distributed Company will adopt a cafeteria plan substantially identical to the Cafeteria Plan to receive and implement the obligations and credits spun off from the Cafeteria Plan.

c. Each Distributed Company will treat as remaining in effect any elections the Distributed Company Employees made before the Distribution with respect to the Health Care Reimbursement Plan Benefit, the Dependent Care Assistance Program Benefit, the Health Insurance Benefit, and, to the extent offered by the Distributed Company after the Distribution,

the Dental Insurance Benefit (each "Benefit" having the meaning provided in the Company Cafeteria Plan).

d. After the spinoffs described in this Section, Distributed Company Employees will submit any claims for the plan year ending December 31, 1998 to their respective Distributed Company's plan and not to the Company Cafeteria Plan.

7. SEVERANCE

Effective as of the Distribution Date, the Company, Printco, Schoolco, Techco, and Travelco each will be liable for any severance pay and benefits (including salary continuation) owing, as of or after the Distribution Date, to Company Individuals, Printco Individuals, Schoolco Individuals, Techco Individuals, and Travelco Individuals, respectively.

8. STOCK OPTIONS

a. The Company will retain the 1994 Amended and Restated USOP Long-Term Incentive Plan (the "Company Stock Plan") and the obligations under that plan with respect to stock options granted thereunder that are held by or in respect of Company Employees.

b. The Distributed Companies will establish stock option plans under which they will provide options to their respective Employees to replace any options those employees hold under the Company Stock Plan and under which they may offer additional options.

c. Any option granted by a Distributed Company in replacement for an option under the Company Stock Plan will expressly provide that it is being granted in full satisfaction of, and in substitution for, any and all Company stock options with respect to which it relates.

9. FOREIGN PLANS

Subject to applicable local law requirements and to the extent practicable, the respective rights and obligations of the Company, Printco, Schoolco, Techco, and Travelco (and their respective Subsidiaries) with respect to plans maintained by the Company and its Subsidiaries immediately before the Distribution Date outside of the United States will be treated in a manner consistent with the general principles described in Section 2 of this Benefits Agreement; provided, however, that nothing herein shall be construed so as to (A) modify the terms and conditions of employment of any Company Employee, Printco Employee, Schoolco Employee, Techco Employee, or Travelco Employee who is employed outside of the United States (a "Foreign Employee") or (B) constitute an actual or constructive termination of any Foreign Employee's employment with the Company, Printco, Schoolco, Techco, Travelco, or any of their respective Subsidiaries, as applicable.

10. COOPERATION

a. The Company and the Distributed Companies will cooperate in providing each other and other necessary parties with such data as may be necessary to administer their respective benefit plans in accordance with the terms of this Agreement. To that end, each will share, and will cause their affiliates to share, with each other and their respective agents and vendors (without obtaining releases) all participant, plan design, and other information necessary for the efficient and accurate administration of, compliance with laws and regulations applicable to, and response to governmental authorities regarding, their respective benefit plans, programs, and arrangements after the Distribution. Each party to this agreement and their respective authorized agents will, subject to applicable laws on confidentiality, be given reasonable and timely access to, and may make copies of, all information relating to the subjects of this Agreement in the custody of another party, to the extent necessary for such administration.

b. The Company and the Distributed Companies agree to cooperate in completing all necessary filings with the Internal Revenue Service, Department of Labor, and Pension Benefit Guaranty Corporation with respect to the matters provided herein and will apprise the other parties hereto of any written or oral communication to or from any such agency with respect thereto that may bear on such other parties' interests hereunder. The Company will make all necessary Internal Revenue Service filings for the 1997 plan year and, if applicable, any "short year" filings for the 1998 plan year, with respect to the plans (other than Stand-Alone Plans) in which Distributed Company Employees participated before the Distribution Date.

11. NO THIRD PARTY BENEFICIARIES.

Notwithstanding anything to the contrary herein, this Benefits Agreement is solely for the benefit of the Company and the Distributed Companies. There shall be no third party beneficiaries under this Benefits Agreement, including, without limitation, any Company Individual, Printco Individual, Schoolco Individual, Techco Individual, or Travelco Individual.

12. INCORPORATION BY REFERENCE.

This Benefits Agreement is part of the Distribution Agreement, and shall be incorporated by reference into the Distribution Agreement as if set forth fully therein. Without limiting the generality of the foregoing, the parties acknowledge and agree that all provisions of the Distribution Agreement relating to Indemnification, Dispute Resolution, Notices, and the other provisions labeled "Miscellaneous" in the Distribution Agreement shall apply with respect to the matters described herein as if such terms were incorporated herein and a part hereof.

13. TAX DEDUCTIONS

Except as otherwise provided in Section 5 of the Tax Allocation Agreement dated __________, 1998 between the Company, Printco, Schoolco, Techco and Travelco, the parties intend that the party that actually bears the cost (whether directly or indirectly) of making a

payment with respect to, or (except as provided below) whose stock is used to satisfy, a liability governed by this Agreement will be entitled to any and all tax benefits associated therewith, including the benefit of taking an income tax deduction with respect to such payment or satisfaction, and will be obligated to satisfy all tax withholding obligations with respect there, and the parties agree to take no action inconsistent with such intention. Notwithstanding that intent, the parties recognize that it is possible that the Internal Revenue Service or another taxing authority will take a different position. Therefore,

the parties agree that

> if any of them is notified by the IRS or another taxing authority that it is taking or proposes to take a different position, the party receiving such notice will notify any others affected by the notice; and
>
> if, when, and to the extent that one party or its Subsidiary receives a tax benefit as a result of a payment made by another party to satisfy a liability governed by this Agreement, the benefiting party will pay or cause its Subsidiary to pay the other party an amount equal to the "net tax benefit" (as defined below) realized by the benefiting party, as and when realized.

For this purpose, the "net tax benefit" to either party resulting from payment or satisfaction of a liability will be deemed to equal the excess of (a) the taxes that would have been paid by such party if such party had not paid or satisfied such liability over (b) the taxes that the party actually pays.

14. MISCELLANEOUS

a. Complete Agreement; Construction. This Benefits Agreement, including all Exhibits attached hereto, constitutes the entire agreement between the parties with respect to the subject matter hereof and supersedes all previous negotiations, commitments, and writings with respect to such subject matter.

b. Supersession. In the event of any conflict between any of the terms of this Benefits Agreement and the terms of either Distribution Agreement, the terms of this Benefits Agreement will govern.

15. OTHER ACTIONS. The parties hereto shall take such other and further actions as may be necessary or appropriate to carry out this Benefits Agreement.

IN WITNESS WHEREOF, the parties have caused this Benefits Agreement to be executed by their duly authorized officers as of the day and year first written above.

U.S. OFFICE PRODUCTS COMPANY

by

Name:
Title:

WORKFLOW MANAGEMENT, INC.

by

Name:
Title:

SCHOOL SPECIALTY, INC.

by

Name:
Title:

AZTEC TECHNOLOGY PARTNERS, INC.

by

Name:
Title:

NAVIGANT INTERNATIONAL, INC.

by

Name:
Title:

EXHIBIT 21

SUBSIDIARIES OF THE REGISTRANT

	NAME	STATE OR OTHER JURISDICTION OF INCORPORATION OR ORGANIZATION
1.	RePrint, LLC	Delaware
2.	Sax Arts & Crafts, Inc.	Delaware
3.	Childcraft, Inc.	New York
4.	Bird-in-Hand Woodworks, Inc.	Pennsylvania
5.	Don Gresswell, Ltd.	United Kingdom

EXHIBIT 23.2

CONSENT OF INDEPENDENT ACCOUNTANTS

We hereby consent to the use in the Prospectus constituting part of this Registration Statement on Form S-1 of our report dated January 13, 1998 (except for Note 1 and the last paragraph of Note 3, which are as of May 14, 1998), relating to the financial statements of School Specialty, Inc., as of April 30, 1996 and April 26, 1997 and for the four months ended April 30, 1996 and for the fiscal year ended April 26, 1997, which appears in such Prospectus. We also consent to the application of such report to the Financial Statement Schedule for the period from January 1, 1996 to April 30, 1996 and for the year ended April 26, 1997 listed as Exhibit 99.1 of this Registration Statement when such Schedule is read in conjunction with the financial statements referred to in our report. The audits referred to in such report also included this schedule. We also consent to the reference to us under the heading "Experts" in such Prospectus.

PRICE WATERHOUSE LLP

Minneapolis, Minnesota

May 14, 1998

EXHIBIT 23.3

CONSENT OF ERNST & YOUNG LLP, INDEPENDENT AUDITORS

We consent to the reference to our firm under the caption "Experts" and to the use of our report dated February 2, 1996, with respect to the financial statements of School Specialty, Inc. for the years ended December 31, 1995 and 1994 included in the Registration Statement on Form S-1 and related Prospectus of School Specialty, Inc. for the registration of shares of its common stock. We also consent to the application of such report to the Financial Statement Schedule for the two years ended December 31, 1995 listed as Exhibit 99.1 of this Registration Statement when such Schedule is read in conjunction with the financial statements referred to in our report. The audits referred to in such report also included this schedule.

ERNST & YOUNG LLP

Milwaukee, Wisconsin

May 14, 1998

EXHIBIT 23.4

CONSENT OF INDEPENDENT ACCOUNTANTS

We hereby consent to the use in the Prospectus constituting part of this Registration Statement of School Specialty, Inc. on Form S-1 of our report dated February 8, 1996, relating to the financial statements of The Re-Print Corporation, which report appears in such Prospectus. We also consent to the application of such report to the Financial Statement Schedule for the two years ended December 31, 1995 listed as Exhibit 99.1 of this Registration Statement when such Schedule is read in conjunction with the financial statements referred to in our report. The audits referred to in such report also included this schedule. We also consent to the references to us under the heading "Experts" in such Prospectus.

BDO SEIDMAN, LLP

Atlanta, Georgia

May 14, 1998

EXHIBIT 23.5

INDEPENDENT AUDITORS' CONSENT

We hereby consent to the use in this Prospectus constituting part of this Registration Statement on Form S-1 as amended of our report dated February 24, 1997, relating to the consolidated financial statements of American Academic Suppliers Holding Corporation and Subsidiary, which appears in such Prospectus. We also consent to the references to us under the heading "Experts".

ALTSCHULER, MELVOIN AND GLASSER LLP

Chicago, Illinois

May 14, 1998

EXHIBIT 23.6

CONSENT OF INDEPENDENT ACCOUNTANTS

We hereby consent to the use in the Prospectus constituting part of this Registration Statement on Form S-1 of our report dated February 3, 1998, relating to the financial statements of Sax Arts and Crafts, Inc. as of December 15, 1995 and December 25, 1996 and for each of the three years in the period ended December 25, 1996 which appears in such Prospectus. We also consent to the reference to us under the heading "Experts" in such Prospectus.

PRICE WATERHOUSE LLP

Minneapolis, MN
May 14, 1998

<ARTICLE> 5
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This schedule contains summary financial information extracted from the audited consolidated financial statements of the Company included in the Registration Statment on Form S-1 and is qualified in its entirety by reference to such financial statements.
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EXHIBIT 99.1

SCHOOL SPECIALTY, INC.

VALUATION AND QUALIFYING ACCOUNTS AND RESERVES

FOR THE TWO YEARS ENDED DECEMBER 31, 1994, 1995, THE FOUR MONTHS ENDED APRIL 30, 1996 AND THE FISCAL YEAR ENDED APRIL 26, 1997
FINANCIAL STATEMENT SCHEDULE II

DESCRIPTION	DATE	BALANCE AT BEGINNING OF PERIOD	CHARGED TO COSTS AND EXPENSES	CHARGED TO OTHER ACCOUNTS	DEDUCTIONS	DATE	BALANCE AT END OF PERIOD
Allowance for doubtful	January 1, 1994	$ 137,000	$ 121,000	$	$ (19,000)(a)	December 31, 1994	$ 239,000
accounts............	January 1, 1995	239,000	2,000	243,000(b)	(30,000)(a)	December 31, 1995	211,000
	January 1, 1996	211,000	10,000		(19,000)(a)	April 30, 1996	202,000
	May 1, 1996	202,000	27,000		(1,000)(a)	April 26, 1997	471,000
Accumulated	January 1, 1994	1,540,000	757,000		(781,000)(c)	December 31, 1994	2,297,000
amortization of	January 1, 1995	2,297,000	1,098,000		(59,000)(c)	December 31, 1995	2,614,000
intangibles.........	January 1, 1996	2,614,000	203,000			April 30, 1996	2,817,000
	May 1, 1996	2,817,000	566,000			April 26, 1997	3,324,000

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(a) Represents (write-offs)/recoveries of uncollectible accounts receivable.

(b) Allowance for doubtful accounts acquired in purchase acquisitions.

(c) Represents (write-offs)/recoveries of fully amortized intangible assets.