UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

FORM 10-Q

[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE QUARTERLY PERIOD ENDED October 24, 1998.

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

Commission File Number: 000-24385

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

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

1000 North Bluemound Drive
Appleton, Wisconsin
(Address of Principal Executive Offices)

54914
(Zip Code)

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

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

Yes [X] No [ ]

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

Class	Outstanding at November 30, 1998
Common Stock, $0.001 par value	14,572,784

SCHOOL SPECIALTY, INC.

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FOR THE QUARTERLY PERIOD ENDED OCTOBER 24, 1998

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PART I - FINANCIAL INFORMATION

Item 1. Financial Statements

SCHOOL SPECIALTY, INC.
CONSOLIDATED BALANCE SHEETS
(In thousands)

	October 24, 1998 (unaudited)	April 25, 1998
ASSETS		
Current assets:		
Cash and cash equivalents	$ -	$ -
Accounts receivable, less allowance for doubtful accounts of $650 and $716, respectively	149,795	38,719
Inventories	52,093	49,306
Prepaid expenses and other current assets	13,403	13,503
Total current assets	215,291	101,528
Property and equipment, net	39,491	22,553
Intangible assets, net	184,849	99,613
Deferred income tax asset	6,191	-
Other assets	316	35
Total assets	$446,138	$223,729
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Current portion of long term debt	$ 10,314	$ 11
Short-term payable to U.S. Office Products	-	20,277
Accounts payable	31,023	23,788
Accrued compensation	12,616	4,458

Accrued income taxes	9,373	-
Accrued restructuring	4,200	-
Other accrued liabilities	10,789	5,204
Total current liabilities	78,315	53,738
Long-term payable to U.S. Office Products	-	62,699
Long-term debt	205,233	315
Other	226	511
Total liabilities	283,774	117,263
Stockholders' equity:		
Common stock, $0.001 par value per share, 151,000,000 shares authorized and 14,572,784 shares issued and outstanding	15	-
Capital paid in excess of par value	146,768	-
Divisional equity	-	104,883
Accumulated other comprehensive income	5	-
Retained earnings	15,576	1,583
Total stockholders' equity	162,364	106,466
Total liabilities and stockholders' equity	$446,138	$223,729

See accompanying notes to consolidated financial statements.

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

	THREE MONTHS ENDED		SIX MONTHS ENDED	
	October 24, 1998	October 25, 1997	October 24, 1998	October 25, 1997
Revenues	$ 212,316	$ 111,460	$ 338,973	$ 198,489
Cost of revenues	141,555	74,235	224,170	130,927
Gross profit	70,761	37,225	114,803	67,562
Selling, general and administrative expenses	47,887	25,070	77,529	43,535
Non-recurring charges:				
Strategic restructuring plan cost	-	-	1,074	-
Restructuring costs	4,200	-	4,200	-
Operating income	18,674	12,155	32,000	24,027
Other income (expense):				
Interest expense	(3,858)	(1,385)	(5,063)	(2,745)
Interest income	45	79	77	124
Income before provision for income taxes	14,861	10,849	27,014	21,406
Provision for income taxes	7,431	4,884	13,021	9,637
Net income	$ 7,430	$ 5,965	$ 13,993	$ 11,769
Weighted average shares:				
Basic	14,573	12,263	14,651	12,036
Diluted	14,573	12,588	14,710	12,301
Net income per share:				
Basic	$ 0.51	$ 0.49	$ 0.96	$ 0.98
Diluted	$ 0.51	$ 0.47	$ 0.95	$ 0.96

See accompanying notes to consolidated financial statements.

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

	For the Six Months Ended October 24, 1998	For the Six Months Ended October 25, 1997
Cash flows from operating activities:		
Net income	$ 13,993	$ 11,769
Adjustments to reconcile net income to net cash used in operating activities:		
Depreciation and amortization expense	4,271	1,967
Non-recurring charges	5,274	-
Change in current assets and liabilities (net of assets acquired and liabilities assumed in business combinations accounted for under the purchase method):		
Accounts receivable	(66,923)	(42,271)
Inventory	21,914	11,697
Prepaid expenses and other current assets	4,598	1,516
Accounts payable	(16,386)	2,531
Accrued liabilities	16,813	8,035
Net cash used in operating activities	(16,446)	(4,756)
Cash flows from investing activities:		
Cash paid in acquisitions, net of cash received	(95,030)	(68,286)
Additions to property and equipment	(1,870)	(2,480)
Other	575	(145)
Net cash used in investing activities	(96,325)	(70,911)
Cash flows from financing activities:		
Payments of short-term debt, net	(20,277)	(1,840)
Advances from (payments to) U.S. Office Products	(62,699)	7,745
Capital contribution by U.S. Office Products	8,095	69,762
Proceeds from issuance of common stock	32,735	-
Payments of long term debt	(132,823)	-
Proceeds from issuance of long-term debt	290,700	-
Capitalized loan fees	(2,960)	-
Net cash provided by financing activities	112,771	75,667
Net increase (decrease) in cash and cash equivalents	-	-
Cash and cash equivalents, beginning of period	-	-
Cash and cash equivalents, end of period	$ -	$ -
Supplemental disclosures of cash flow information:		
Interest paid	$ 3,230	$ -
Income taxes paid	$ 2,000	$ -

See accompanying notes to consolidated financial statements.

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

The Company issued common stock and cash in connection
with certain business combinations accounted for under

the purchase method in the six months ended October 24, 1998 and October 25, 1997. The fair values of the assets and liabilities of the acquired companies at the dates of the acquisitions are presented as follows:

	For the Six Months Ended October 24, 1998	October 25, 1997
Accounts receivable	$ 44,153	$ 11,907
Inventories	24,701	16,354
Prepaid expenses and other current assets	3,251	2,229
Property and equipment	17,312	3,856
Intangible assets	85,312	52,206
Other assets	7,223	210
Short-term debt	-	(1,850)
Accounts payable	(23,621)	(7,933)
Accrued liabilities	(6,303)	(1,783)
Long-term debt	(56,998)	(3,344)
Net assets acquired	$ 95,030	$ 71,852
Acquisitions were funded as follows:		
U. S. Office Products common stock	$ -	$ 3,566
Cash	95,030	68,286
Total	$ 95,030	$ 71,852

See accompanying notes to consolidated financial statements.

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

NOTE 1_BASIS OF PRESENTATION

The accompanying unaudited consolidated financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information and with the instructions to Form 10-Q and Rule 10-01 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. The Balance Sheet at April 25, 1998 has been derived from the Company's audited financial statements for the fiscal year ended April 25, 1998. For further information, refer to the financial statements and footnotes thereto included in the Company's annual report on Form 10-K for the year ended April 25, 1998.

NOTE 2_STOCKHOLDERS' EQUITY

Changes in stockholders' equity during the six months ended October 24, 1998 were as follows:

Stockholders'equity balance at April 25, 1998	$106,466
Shares distributed in public offering	32,735
Contribution by U.S. Office Products	8,095
Compensation Expense from Officer Stock Purchase	1,074
Cumulative translation adjustments	1
Net income	13,993

Stockholders' equity balance at October 24, 1998 $162,364

On June 10, 1998, U.S. Office Products distributed to its shareholders one share of School Specialty common stock for every 9 shares of U.S. Office Products common stock held by each respective shareholder (the "Strategic Restructuring Plan"). 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, and retroactively adjusted to give effect to the one for nine distribution ratio and includes shares issued in the public offering during the three months ended July 25, 1998.

NOTE 3_EARNINGS PER SHARE

In fiscal 1998, the Company adopted Statement of Financial Accounting Standards ("SFAS") No. 128, "Earnings Per Share." SFAS No. 128 simplifies the standards required under current accounting rules for computing earnings per share and replaces the presentation of primary earnings per share and fully diluted earnings per share with a presentation of basic earnings per share ("basic EPS") and diluted earnings per share ("diluted EPS").

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

	Income (Numerator)	Shares (Denominator)	Per Share Amount
Three months ended October 24, 1998:			
Basic EPS	$7,430	14,573	$ 0.51
Effect of dilutive employee stock options	-	-	-
Diluted EPS	$7,430	14,573	$ 0.51
Three months ended October 25, 1997:			
Basic EPS	$5,965	12,263	$ 0.49
Effect of dilutive employee stock options	-	325	$(0.02)
Diluted EPS	$5,965	12,588	$ 0.47
Six months ended October 24, 1998:			
Basic EPS	$13,993	14,651	$ 0.96
Effect of dilutive employee stock options	-	59	$(0.01)
Diluted EPS	$13,993	14,710	$ 0.95
Six months ended October 25, 1997:			
Basic EPS	$11,769	12,036	$ 0.98
Effect of dilutive employee stock options	-	265	$(0.02)
Diluted EPS	$11,769	12,301	$ 0.96

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

NOTE 4_ACCOUNTING PRONOUNCEMENTS

In June 1997, the Financial Accounting Standards Board ("FASB") issued SFAS No. 130, "Reporting Comprehensive Income." SFAS No. 130 establishes standards for the 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 is effective for fiscal years beginning after December 15, 1997. The Company's other comprehensive income for the period ended October 24, 1998 is $1 and $5, on a cumulative basis. The Company's comprehensive income is comprised solely of translation adjustments.

In June 1997, the FASB issued SFAS No. 131, "Disclosures about segments of an enterprise and related information. " SFAS No. 131 establishes standards for the way that public business enterprises report information about operating segments in annual financial statements and requires that those enterprises report selected information about operating segments in interim financial reports issued to shareholders. It also establishes standards for related disclosures about products and services, geographic areas, and major customers. SFAS No. 131 is effective for financial statements for fiscal years beginning after December 15, 1997 and will be presented in the Company's Annual Report on Form 10-K for the year ending April 24, 1999. Financial statement disclosures for prior periods are required to be restated. The Company is in the process of evaluating the disclosure requirements. The adoption of SFAS No. 131 will have no impact on consolidated results of operations, financial position or cash flow.

In March 1998, the American Institute of Certified Public Accountants ("AICPA") issued Statement of Position 98-1, "Accounting for the costs of computer software developed or obtained for internal use" ("SOP 98-1"). SOP 98-1 requires computer software costs associated with internal use software to be expensed as incurred until certain capitalization criteria are met. The Company will adopt SOP 98-1 during fiscal year 1999. Adoption of this Statement is not expected to have a material impact on the Company's consolidated financial position or results of operations.

NOTE 5_CREDIT FACILITY

On June 9, 1998, the Company entered into a secured $250,000 revolving credit facility with NationsBank, N.A. as administrative agent. On August 14, 1998, the Company received a commitment from NationsBank for an additional $100,000 term loan, amending and increasing the existing $250,000 credit facility to a total of $350,000. On September 30, 1998, the Company entered into a five year secured revolving $350,000 credit facility upon completion of the syndication led by NationsBank. Interest on borrowings under the credit facility will accrue through January 1999 at a rate of, at the Company's option, either (i) LIBOR plus 2.375%, or (ii) the lender's base rate plus a margin of .75% plus a fee of .475 on the unborrowed amount under the revolving credit facility. Thereafter, interest will accrue at a rate of (i) LIBOR plus a range of 1.000% to 2.000%, or (ii) the lender's base rate plus a range of .000% to .750% plus a fee ranging from .275 to .475 on the unborrowed amount under the revolving credit

facility (depending on the Company's leverage ratio of funded debt to EBITDA). Indebtedness is secured by substantially all of the assets of the Company. The

credit facility is subject to terms and conditions typical of facilities of such size and includes certain financial covenants. The Company borrowed under the credit facility to repay the U.S. Office Products' debt outstanding on June 10, 1998 in accordance with the terms of the U.S. Office Products Strategic Restructuring Plan and to fund the two companies acquired in Fiscal 1999. The balance of the credit facility will be available for working capital, capital expenditures and acquisitions, subject to compliance with financial covenants. The amount outstanding as of October 24, 1998 under the credit facility was approximately $215,000.

The term loan will amortize quarterly over five years under the following amortization schedule with the first principal payment due January 30, 1999:

Year 1	$10,000
Year 2	15,000
Year 3	15,000
Year 4	30,000
Year 5	30,000
	$100,000

NOTE 6_BUSINESS COMBINATIONS

During the fiscal period ended April 25, 1998, the Company completed 8 business combinations which were accounted for under the purchase method.

In the first six months of fiscal 1999, the Company made two significant acquisitions which were accounted for under the purchase method of accounting for an aggregate cash purchase price of $94,819, resulting in goodwill of approximately $85,000 which will be amortized over 40 years. The results of these acquisitions have been included in the Company's results from their respective dates of acquisition.

The following presents the unaudited pro forma results of operations of the Company for the three and six month periods ended October 24, 1998 and October 25, 1997, and includes the Company's consolidated financial statements, which give retroactive effect to the acquisitions as if all such purchase acquisitions had been made at the beginning of fiscal 1998. The results presented below include certain pro forma adjustments to reflect the amortization of intangible assets, adjustments to interest expense, adjustments to depreciation, and the inclusion of a federal income tax provision on all earnings for the periods ended October 24, 1998 and October 25, 1997 respectively:

Three Months Ended Ended		Six Months Ended	
October 24, 1998	October 25, 1997	October 24, 1998	October 25, 1997

Revenues	$212,316	$206,937	$395,043	$391,715
Net income	7,430	6,639	14,697	13,298
Net income per share:				
Basic	$ 0.51	$ 0.54	$ 1.00	$ 1.10
Diluted	$ 0.51	$ 0.53	$ 1.00	$ 1.08

On March 30, 1998, the Company acquired certain assets of Education Access out of a Federal bankruptcy proceeding. Accordingly, revenues and net loss for Education Access included in the above pro forma results were $2,200 and ($20), respectively, for the quarter ended October 24, 1998, compared with revenues and net income of $5,100 and $70, respectively, for the quarter ended October 25, 1997. Revenues and net loss were $4,100 and ($110), respectively, for the six months ended October 24, 1998, compared with revenues and net income of $14,800 and $540, respectively, for the six months ended October 25, 1997.

In addition, the Company incurred non-recurring charges in the quarters ended July 25, 1998 and October 24, 1998. The first quarter non-cash strategic restructuring plan cost of $1,074 consisted of compensation expense attributed to the U.S. Office Products stock option tender offer and the sale of shares of stock to certain executive management personnel of the Company, net of underwriting discounts. The second quarter restructuring cost of $4,200 is related to the consolidation of the Company's existing warehousing, customer service and sales operations resulting from the acquisition of Beckley-Cardy, Inc. The $4,200 charge includes $2,100 for employee severance and termination benefits, $1,300 for lease termination and facility shut-down costs and $800 for write down of fixed assets and inventories.

The after-tax charge included in net income for the quarter and six months ended October 24, 1998 is $2,516 and $3,158, respectively.

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 1998 or the results which may occur in the future.

Note 7- Subsequent Events

On October 28, 1998 the Company entered into an interest rate swap agreement with the Bank of New York covering $50,000 of the outstanding credit facility. The agreement fixes the 30 day LIBOR interest rate at 4.37% per annum on the $50,000 notional amount and has a three year term that may be canceled by the Bank of New York on the second anniversary.

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

Results of Operations

The following table sets forth various items as a

percentage of revenues on a historical basis.

	THREE MONTHS ENDED		SIX MONTHS ENDED	
	OCTOBER 24, 1998	OCTOBER 25, 1997	OCTOBER 24, 1998	OCTOBER 25, 1997
Revenues	100.0%	100.0%	100.0%	100.0%
Cost of revenues	66.7%	66.6%	66.1%	66.0%
Gross profit	33.3%	33.4%	33.9%	34.0%
Selling, general and administrative expenses	22.5%	22.5%	22.9%	21.9%
Non-recurring charges:				
Strategic restructuring plan cost	-	-	0.3%	-
Restructuring costs	2.0%	-	1.3%	-
Operating income	8.8%	10.9%	9.4%	12.1%
Interest expense, net	1.8%	1.2%	1.5%	1.4%
Income before provision for income taxes	7.0%	9.7%	7.9%	10.7%
Provision for income taxes	3.5%	4.4%	3.8%	4.8%
Net income	3.5%	5.3%	4.1%	5.9%

Three Months Ended October 24, 1998 Compared to Three Months Ended October 25, 1997

Revenues

Revenues increased 90.5% from $111.5 million for the three months ended October 25, 1997 to $212.3 million for the three months ended October 24, 1998. This increase was primarily due to the inclusion of revenues from (i) the two companies acquired in business combinations accounted for under the purchase method during the first and second quarters of fiscal 1999, and (ii) the two companies acquired during the second half of fiscal 1998 in business combinations accounted for under the purchase method. Revenues also increased due to sales to new accounts and increased sales to existing customers.

Gross Profit

Gross profit increased 90.1%, from $37.2 million or 33.4% of revenues for the three months ended October 25, 1997 to $70.8 million or 33.3% of revenues for the three months ended October 24, 1998. The decrease in gross profit as a percentage of revenues was due primarily to a shift in revenue mix, primarily attributed to (i) the acquisition of Beckley-Cardy in the second quarter of fiscal 1999, which has a lower gross profit as a percentage of

revenues, and (ii) increases in lower margin bid revenues, offset by the Childcraft and Sax shifts in reveune mix which increased the higher gross margins in the specialty companies.

Selling, General and Administrative Expenses

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

Selling, general and administrative expenses increased 91.0%, from $25.0 million or 22.5% of revenues for the three months ended October 25, 1997 to $47.9 million or 22.5% of revenues for the three months ended October 24, 1998. Lower customer service costs and general administrative overhead as a percent of revenues attributed to the integration of the companies acquired in fiscal 1998 were offset by higher sales, depreciation and amortization expenses, resulting in no change in selling, general and administrative expenses as a percentage of sales.

Non-recurring Charges

The second quarter restructuring costs of $4.2 million is related to the consolidation of School Specialty Inc's existing warehousing, customer service and sales operations resulting from the acquisition of Beckley-Cardy, Inc. The Company will close and consolidate five warehouses and seven customer service locations. After the restructuring, the Company will have eight distribution centers located in Massachusetts, Wisconsin, Ohio, Kansas, Texas, Nevada, Oregon and California and two customer service centers in Ohio and Wisconsin. The $4.2 million charge includes $2.1 million for employee severance and termination benefits, $1.3 million for lease termination and facility shut-down costs and $.8 million for write down of fixed assets and inventories.

The after-tax charge included in net income for the quarter is $2.5 million.

Interest Expense

Interest expense, net of interest income, increased $2.5 million from $1.3 million or 1.2% of revenues for the three months ended October 25, 1997 to $3.8 million or 1.8% of revenues for the three months October 24, 1998 primarily due to the increase in debt attributed to the debt assumed and cash paid for the four companies acquired since October 25, 1997, offset by debt repaid from the net proceeds of the Company's initial public offering and the sale of 250,000 shares of Common Stock to certain employees in the first quarter of Fiscal 1999.

Provision for Income Taxes

Provision for income taxes for the three months ended October 24, 1998 increased 52.2 % or $2.5 million over the three months ended October 25, 1997, reflecting income tax rates of 50% and 46% for the three months ended October 24, 1998 and October 25, 1997, respectively. The higher effective tax rate, compared to the federal statutory rate of 35.0%, is primarily due to state income taxes and non-deductible goodwill amortization. The increase in the tax rate from 46% to 50% reflects

higher non-deductible goodwill primarily attributed to the Beckley-Cardy acquisition in the second quarter of fiscal 1999.

Six Months Ended October 24, 1998 Compared to Six Months Ended October 25, 1997

Revenues

Revenues increased 71% from $198.5 million for the six months ended October 25, 1997 to $339.0 million for the six months ended October 24, 1998. This increase was primarily due to the inclusion of revenues from (i) the two companies acquired in business combinations accounted for under the purchase method during the first and second quarters of fiscal 1999, and (ii) the eight companies acquired during fiscal 1998 in business combinations accounted for under the purchase method. Revenues also increased due to sales to new accounts and increased sales to exiting customers.

Gross Profit

Gross profit increased 69.9%, from $67.6 million or 34.0% of revenues for the six months ended October 25, 1997 to $114.8 million or 33.9% of revenues for the six months ended October 24, 1998. The decrease in gross profit as a percentage of revenues was due primarily to a shift in revenue mix, primarily attributed to (i) the acquisition of Beckley-Cardy in the second quarter of fiscal 1999, which has a lower gross profit as a percentage of revenues, and (ii) increases in lower margin bid revenues, offset by the Childcraft and Sax shifts in revenue mix which increased the higher gross margins in the specialty companies.

Selling, General and Administrative Expenses

Selling, general and administrative expenses increased 78.1%, from $43.5 million or 21.9% of revenues for the six months ended October 25, 1997 to $77.5 million or 22.9% of revenues for the six months ended October 24, 1998. The increase in selling, general and administrative expenses as a percentage of revenues was primarily due to (i) the inclusion of the results of the six companies acquired in the first and second quarters of fiscal 1998, which had higher selling, general and administrative expenses as a percentage of revenue and (ii) higher depreciation and amortization expenses.

Non-recurring Charges

In the first quarter of Fiscal 1999, the Company recorded a non-cash strategic restructuring plan cost of $1.1 million consisting of compensation expense attributed to the U.S. Office Products stock option tender offer and the sale of shares of stock to certain executive management personnel of the Company, net of underwriting discounts.

The $4.2 million second quarter charge is related to the consolidation of the Company's existing warehousing, customer service and sales operations resulting from the acquisition of Beckley-Cardy, Inc. The Company will close and consolidate five warehouses and seven customer service locations. After the

restructuring, the Company will have eight distribution centers located in Massachusetts, Wisconsin, Ohio, Kansas, Texas, Nevada, Oregon and California and two customer service centers in Ohio and Wisconsin. The $4.2 million charge includes $2.1 million for employee severance and termination benefits, $1.3 million for lease termination and facility shut-down costs and $.8 million for write down of fixed assets and inventories.

The after-tax charge included in net income for the three months and six months ended October 24, 1998 is $2.5 million and $3.2 million, respectively.

Interest Expense

Interest expense, net of interest income, increased $2.4 million from $2.6 million or 1.3% of revenues for the six months ended October 25, 1997 to $5.0 million or 1.5% of revenues for the six months October 24, 1998 primarily due to the increase in debt attributed to the debt assumed and cash paid for the four companies acquired since October 25, 1997 offset by a reduction of debt from applying the net proceeds from the Company's initial public offering and the sale of 250,000 shares of Common Stock to certain employees.

Provision for Income Taxes

Provision for income taxes for the six months ended October 24, 1998 increased 35.1 % or $3.4 million over the six months ended October 25, 1997, reflecting income tax rates of 48.2% and 45% for the six months ended

October 24, 1998 and the six months ended October 25, 1997, respectively. The higher effective tax rate, compared to the federal statutory rate of 35.0%, is primarily due to state income taxes and non-deductible goodwill amortization, including the non-deductible goodwill attributed to the second quarter acquisition of Beckley-Cardy.

Liquidity and Capital Resources

At October 24, 1998, the Company had working capital of $137 million. The Company's capitalization at October 24, 1998 was $367.6 million and consisted of long-term debt of $205.2 million and stockholders' equity of $162.4 million.

The Company anticipates that its cash flow from operations and borrowings available from its existing bank credit facility will be sufficient to meet its liquidity requirements for its operations (including anticipated capital expenditures) and for its additional debt service obligations for the remainder of the fiscal year.

On June 9, 1998, the Company entered into a secured $250 million revolving credit facility with NationsBank, N.A. as administrative agent. On August 14, 1998, the Company received a commitment from NationsBank for an additional $100 million term loan, amending and increasing the existing $250 million

credit facility to a total of $350 million. On September 30, 1998, the Company entered into a five year secured $350 million revolving credit facility upon completion of the syndication led by NationsBank. Interest on borrowings under the credit facility will accrue through January 1999 at a rate of, at the Company's option, either (i) LIBOR plus 2.375%, or (ii) the lender's base rate, plus a margin of .75% plus a fee of .475 on the unborrowed amount under the revolving credit facility. Thereafter, interest will accrue at a rate of (i) LIBOR plus a range of 1.000% to 2.000%, or (ii) the lender's base rate plus a range of .000% to .750% plus a fee ranging from .275 to .475 on the unborrowed amount under the revolving credit facility (depending on the Company's leverage ratio of funded debt to EBITDA). Indebtedness is secured by substantially all of the assets of the Company. The credit facility is subject to terms and conditions typical of facilities of such size and includes certain financial covenants. The Company borrowed under the credit facility to repay the U.S. Office Products' debt outstanding on June 10, 1998 in accordance with the terms of the U.S. Office Products Strategic Restructuring Plan and to fund the two companies acquired in Fiscal 1999. The balance of the credit facility will be available for working capital, capital expenditures and acquisitions, subject to compliance with financial covenants. The amount outstanding as of October 24, 1998 under the credit facility was approximately $215 million.

The term loan will amortize quarterly over five years under the following amortization schedule with the first principal payment due January 30, 1999:

	(000 omitted)
Year 1	$10,000
Year 2	15,000
Year 3	15,000
Year 4	30,000
Year 5	30,000
	$100,000

On October 28, 1998 the Company entered into an interest rate swap agreement with the Bank of New York covering $50 million of the outstanding credit facility. The agreement fixes the 30 day LIBOR interest rate at 4.37% per annum on the $50 million notional amount and has a three year term that may be canceled by the Bank of New York on the second anniversary.

On June 9, 1998, the Company's registration statement on Form S-1 filed pursuant to the Securities Act of 1933, as amended, was declared effective by the Securities and Exchange Commission. The registration statement related to an offering of 2,125,000 shares of the Common Stock, par value $.001, of the Company at an aggregate offering price of $32,937,500. On June 10, 1998, the Company sold 2,125,000 shares of Common Stock. The total proceeds to the Company of the offering, net of underwriting discounts and commissions of $2,305,625, were $30,631,875. In addition, the Company sold 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 shares were sold at a price of $14.415 for aggregate consideration of $3,603,750. The sale of these shares was exempt from registration pursuant to Section 4(2) of the Securities Act of 1933, as amended. In connection with the offering, the Company incurred approximately $1,500,000 of expenses. The total net proceeds to the Company of the offering and the sale of 250,000 shares to certain members of management were approximately $32,735,625. The net proceeds were used to reduce indebtedness outstanding under the Company's credit facility. The debt under the credit facility had been incurred to pay debt of U.S. Office Products allocated to the Company in connection with the Company's spin-off from U.S. Office Products.

During the six months ended October 24, 1998, net cash used in operating activities was $17.0 million. This net use of cash by operating activities during the period is indicative of the high seasonal nature of the business, with sales occurring in the first and second quarter of the fiscal year and cash receipts in the second and third quarters. Net cash used in investing activities was $96.3 million, including $95.0 million for acquisitions and $1.9 million for additions to property and equipment. Net cash provided by financing activities was $112.8 million. Borrowings under the revolving credit facility included (i) $16.9 million used to fund the cash portion of the purchase price of the Hammond & Stephens acquisition,(ii) $134.7 million used to fund the Beckley-Cardy acquisition consisting of $78.1 million for the cash portion of the purchase price and $56.6 million for debt repayment, (iii) $83.3 million used to repay the U.S. Office Products debt in accordance with the terms of the Strategic Restructuring Plan and (iv) $56 million used for short-term funding of seasonal working capital and the purchase of property and equipment. $32.7 million net proceeds from the Company's initial public offering and the sale of 250,000 shares of Common Stock to certain employees was used to repay a portion of the $290.7 million borrowed under the revolving credit facility. U. S. Office Products contributed capital of $8.1 million as required under the distribution agreement entered into with the Company in connection with the spin-off.

During the six months ended October 25, 1997, net cash used in operating activities was $4.8 million. Net cash used in investing activities was $70.9 million, including $68.3 million for acquisitions and $2.5 million for additions to property and equipment. Net cash provided by financing activities was $75.7 million, including $68.3 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 1998 purchased companies and $7.7 million advanced by U.S. Office Products to fund working capital and the purchase of property and equipment, partially offset by $1.8 million used to repay indebtedness.

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 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.

Inflation

The Company does not believe that inflation has had a material impact on its results of operations during the three or six months ended October 24, 1998 and October 25, 1997, respectively.

Year 2000

The Year 2000 issue exists because many computer systems and applications, including those embedded in equipment and facilities, use two digit rather than four digit date fields to designate an applicable year. As a result,

the systems and applications may not properly recognize the year 2000 or process data which includes it, potentially causing data miscalculations or inaccuracies or operational malfunctions or failures.

The Company has established a centrally-managed, company-wide plan to identify, evaluate and address Year 2000 issues. Included in the scope of this plan are the Company's operational and financial information technology ("IT") systems and applications, and end-user computing resources. Defined in the plan are compliance definitions and testing guidelines for in-house developed applications and computer hardware platforms. The plan defines a methodology for assessing in-house developed applications. Certifications are being acquired from suppliers for purchased software, including standard software used on personal computers. In addition, the plan contemplates a review of the Year 2000 compliance efforts of the Company's key suppliers and other principal business partners and, as appropriate, the development of joint business support and continuity plans for Year 2000 issues. While this initiative is broad in scope, it has been structured to identify and prioritize the Company's efforts for mission critical systems, network elements and products and key business partners.

Work is progressing in the following phases: assessment, remediation, and verification. The assessment phase involves identifying all in-house developed computer applications, purchased software and hardware, merchandise vendors and non-IT systems. The

assessment phase also includes developing a plan for addressing each item and/or vendor to ensure Year 2000 compliance. The remediation phase is implementing the change to reach compliance and unit testing. This includes correspondence with vendors that have products or services that impact the Company's ability to continue normal business operations. The verification phase is system testing the change(s) in similar environments. This includes testing with vendors and service provider organizations. Although the pace of the work varies among the Company's business units and the phases are often conducted in parallel, as of October 24, 1998, the assessment phase has been substantially completed and the remediation and verification phases are in progress.

The Company expects that most of its mission critical systems, network elements and products will be remediated and verified by May, 1999, subject to additional Year 2000 testing and responsive actions. The Company's ability to meet that target is dependent upon a variety of factors, including the timely provision of necessary upgrades and modifications by the Company's suppliers and contractors. In some instances, upgrades or modifications are not expected to be available until late 1998 or early 1999; accordingly, the Company's testing and redeployment of affected items may be delayed until later in 1999. In addition, the Company has no method of ensuring that third parties on whom the Company depends for essential services (such as electric utilities, communication carriers, freight carriers, etc.) will convert their critical systems and processes in a timely manner. Failure or delay by any of these parties could significantly disrupt the Company's business. However, the Company has established a supplier compliance program, and is working with its key suppliers to minimize such risks.

The Company is utilizing both internal and external resources to reprogram, or replace and test the software for Year 2000 modifications. The Company currently estimates that it will incur expenses of approximately $0.1 million through 1999 in connection with the Company's anticipated Year 2000 efforts, in addition to approximately $0.05 million in expenses incurred through October 24, 1998 for matters historically identified as Year 2000-related. The timing of expenses may vary and is not necessarily indicative of readiness efforts or progress to date. The Company anticipates that a portion of its Year 2000 expenses will not be incremental costs, but rather will represent the redeployment of existing IT resources. The Company also expects to incur certain capital improvement costs (totaling approximately $0.3 million) to support this project. Such capital costs are being incurred sooner than originally planned, but, for the most part, would have been required in the normal course of business. The Company expects to fund its Year 2000 efforts through operating cash flows. The Company will utilize its credit facility for capital improvements related to the effort.

As part of the Company's Year 2000 initiative, the Company is evaluating scenarios that may occur as a result of the century change and are in the process of developing contingency and business continuity plans

tailored for Year 2000-related occurrences. The Company is highly reliant on its order processing and inventory systems to fill orders, bill the customer and collect payments. A loss of either of these systems would cause long delays in filling and shipping products, billing the customer and collecting accounts receivable. The highly seasonal nature of the Company's business does not allow for any delay in shipping products to customers. Although the seasonal

nature of the Company's business would heighten any problems encountered, the timing of the majority of the Company's sales, shipping, billing and collection efforts for Fiscal 1999 will be complete prior to the Year 2000. The Company expects that any unforeseen problems related to Year 2000 issues would be identified within the months of January and February 2000, which is the slowest period for the Company. The Company has identified that it may experience certain inconveniences or inefficiencies as a result of a supplier's failure to remediate its Year 2000 issue. The Company believes however, that the vast majority of the Company's business will proceed without any significant interruption.

The above information is based on the Company's current best estimates, which were derived using numerous assumptions of future events, including the availability and future costs of certain technological and other resources, third party modification actions and other factors. Given the complexity of these issues and possible unidentified risks, actual results may vary materially from those anticipated and discussed above. Specific factors that might cause such differences include, among others, the availability and cost of personnel trained in this area, the ability to locate and correct all affected computer code, the timing and success of remedial efforts of the Company's third party suppliers and similar uncertainties.

Forward-Looking Statements

In accordance with the Private Securities Litigation Reform Act of 1995, the Company can obtain a "safe-harbor" for forward-looking statements by identifying those statements and by accompanying those statements with cautionary statements which identify factors that could cause actual results to differ materially from those in the forward-looking statements. Accordingly, the foregoing "Management's Discussions and Analysis of Financial Condition and Results of Operations" contains certain forward-looking statements relating to growth plans and projected revenues, earnings and costs. The Company's actual results may differ materially from those contained in the forward-looking statements herein. Factors which may cause such a difference to occur include those factors identified in Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operation_Factors Affecting the Company's Business," contained in the Company's Form 10-K for the year ended April 25, 1998, which factors are incorporated herein by reference to such Form 10-K.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

Not applicable.

Part II - OTHER INFORMATION

Item 5. Other Information

Under the terms of the agreement entered into on June 9, 1998 between the Company and U.S. Office Products in connection with the Strategic Restructuring Plan (the "Distribution Agreement"), the Company has agreed to indemnify U.S. Office Products for certain liabilities incurred by U.S. Office Products prior to the spin-off of the Company from U. S. Office Products, including liabilities under federal securities laws (the "Indemnification Obligation"). The Company's Indemnification Obligation is shared on a pro rata basis with the three other former divisions of U.S. Office Products which were simultaneously spun off with the Company as separate publicly traded entities in connection with the Strategic Restructuring Plan.

U.S. Office Products has been named as a defendant in various class action lawsuits. These lawsuits generally allege violations of federal securities laws by U.S. Office Products and other named defendants during the months preceding the Strategic Restructuring Plan. The Company has not received any notice or claim from U.S. Office Products alleging that these lawsuits are within the scope of the Indemnification Obligation. Also, U.S. Office Products may have insurance which may reduce the amount of any "indemnifiable loss" it may suffer as a result of these lawsuits. To the extent the

Company would incur liability under the Company's Indemnification Obligation, the Company's pro rata share of the liabilities, including any deductible under insurance coverage, according to the Distribution Agreement is approximately 12%, limited in aggregate to $1.75 million.

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits.

Exhibit No.	Description
27.1	Financial Data Schedule

(b) The Company filed 1 report on Form 8-K during the quarter covered by this report, as follows:

(i) Form 8-K/A dated June 30, 1998, filed on September 14, 1998 under Items 2 and 7. Financial statements for Hammond & Stephens Company and the National School Supply Company are included in this report, as are pro forma combined financial statements for the Company.

SIGNATURES

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

SCHOOL SPECIALTY, INC.
(Registrant)

12/7/98	/s/ Daniel P. Spalding
Date	Daniel P. Spalding Chairman of the Board and Chief Executive Officer (Principal Executive Officer)
12/7/98	/s/ Donald J. Noskowiak
Date	Donald J. Noskowiak Executive Vice President and Chief Financial Officer (Principal Financial and Accounting Officer)

INDEX TO EXHIBITS

Exhibit No.	Description
27.1	Financial Data Schedule

<ARTICLE> 5
<LEGEND> This schedule contains summary financial information extracted from the audited consolidated financial statements of the Company included in the Report on Form 10-Q and is qualified in its entirety by reference to such financial statements.
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