UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

☒ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934:**

For the fiscal year ended April 24, 2004

OR

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

Commission File No. 000-24385

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

Wisconsin (State or other jurisdiction of incorporation or organization)	**39-0971239** (I.R.S. Employer Identification No.)
W6316 Design Drive **Greenville, Wisconsin** (Address of principal executive offices)	**54942** (Zip Code)

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

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

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

Common Stock, $0.001 par value
(Title of class)

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

Indicate by check mark whether the Registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act). Yes ☒ No ☐

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

The aggregate market value of the voting stock held by nonaffiliates of the Registrant, as of October 25, 2003, was approximately $515,325,834. As of June 1, 2004, there were 19,069,987 shares of the Registrant's common stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Proxy Statement for the Annual Meeting of Shareholders to be held on August 24, 2004 are incorporated by reference into Part III.

PART I

Item 1. Business

Unless the context requires otherwise, all references to "School Specialty," "we" or "our" refer to School Specialty, Inc. and its subsidiaries. Our fiscal year ends on the last Saturday in April of each year. In this Annual Report on Form 10-K ("Annual Report"), we refer to fiscal years by reference to the calendar year in which they end (e.g., the fiscal year ended April 24, 2004 is referred to as "fiscal 2004"). Note that all fiscal years reported and referenced represent 52 weeks, with the exception of fiscal 2000, which had 53 weeks.

Company Overview

School Specialty is a leading education company that provides products, services and ideas that enhance student achievement and development. We primarily serve the pre-kindergarten through twelfth grade ("preK-12") education market in the United States and Canada. We hold approximately a 14 percent market share of the $7.2 billion other instructional materials market. We offer more than 85,000 items, many of which are proprietary, mail over 40 million catalogs annually, operate a national distribution network and have developed e-commerce websites. Our broad product range enables us to provide customers with one source for their supplemental educational product needs. Our leading market position has been achieved by emphasizing high-quality products and services, superior order fulfillment and exceptional customer service. As a result, we have been able to establish relationships with virtually all of the preK-12 schools and reach nearly all of the teachers in the United States.

We recognize that supplemental educational product procurement decisions are made at the district and school levels by administrators as well as at the classroom level by teachers and curriculum specialists. As a result, we have created an innovative multi-channel sales and marketing strategy enabling us to market our products and services to the various levels of buyers within the education market. The "*traditional*" or "*top down*" approach targets school districts and school administrators through our traditional sales force of over 350 professionals, the School Specialty Educator's Marketplace catalog and *JuneBox.com*, which is a B2B (business to business) e-commerce solution that allows custom catalogs and pricing, a business system interface and a B2T (business to teacher) option. The "*specialty*" or "*bottom up*" approach targets the classroom level decision-makers through our specialty sales force of over 200 professionals, through our catalogs featuring our specialty brands as well as the ClassroomDirect catalog and B2T websites. Our other specialty offerings include Premier Agendas, Childcraft, abc, Sax Arts & Crafts, Children's Publishing and Sportime. The specialty businesses offer more specialized products for individual disciplines. Many of these products are proprietary to our specialty brands.

We believe most of our brands hold the leading market position in their respective categories. We have also solidified this leading market position by acquiring companies that have expanded our geographic presence and product offering. The critical mass we have achieved allows us to benefit from increased buying power while leveraging our national distribution network and sales force to operate more efficiently.

We have grown significantly in recent years through acquisitions and internal growth. From fiscal 2000 through fiscal 2004, our revenues increased from $639.3 million to $907.5 million, a compound annual growth rate, or CAGR, of 9.2 percent. In fiscal 2004, revenues increased by 4.3 percent over the previous fiscal year. We remain focused on growth opportunities, including increasing our penetration rate and expanding in attractive regions, which would allow us to enhance our position as the number one marketer of supplemental educational materials in the United States.

School Specialty, Inc., founded in October 1959, was acquired by U.S. Office Products in May 1996. In June 1998, School Specialty was spun-off from U.S. Office Products in a tax-free transaction. Our common stock is listed on The Nasdaq National Market under the symbol "SCHS." In August 2000, we reincorporated from Delaware to Wisconsin. Our principal offices are located at W6316 Design Drive, Greenville, Wisconsin 54942, and our telephone number is (920) 734-5712. Our general website address is *www.schoolspecialty.com*. You may obtain, free of charge, copies of this Annual Report on Form 10-K as well as our Quarterly Reports on Form 10-Q and our Current Reports on Form 8-K (and amendments to those reports) filed with, or furnished to, the Securities Exchange Commission as soon as reasonably practicable after we have filed, or furnished, such reports by accessing our website at http://www.schoolspecialty.com, clicking on "General," then selecting "Investor Information" and then selecting the "SEC Filings" link. Information contained in any of our websites is not deemed to be a part of this Annual Report.

Industry Overview

The school supply market consists of the sale of supplemental educational products, consumable materials, furniture and equipment to school districts, individual schools, teachers and curriculum specialists who purchase products for school and classroom use. National School Supply and Equipment Association ("NSSEA") estimates that 2003 public school expenditures in the United States of other instructional materials were approximately $7.2 billion sold primarily through institutional channels supplemented by retail channels, such as teacher stores.

According to the U.S. Department of Education, there are approximately 16,000 school districts, 118,500 elementary and secondary schools and 3.6 million teachers in the United States. Administrators for both school districts and individual schools usually make the decision to purchase the general consumable products and furniture needed to operate the school. Teachers and curriculum specialists generally decide on curriculum-specific products for use in their classrooms and individual disciplines. According to the NSSEA teachers in the United States spent approximately $1.9 billion of their own money in 2002 on supplies to supplement classroom materials.

The industry has highly predictable and generally favorable trends. According to the U.S. Department of Education, education expenditures exceeded $400 billion in 2002 and are expected to continue to rise. The most common measure of education spending is current expenditures per student. According to the National Education Association, current expenditures per student in constant dollars have increased from $6,696 in 1989 to an estimated $7,340 in 2003 and are expected to increase further to $8,875 in 2010, a 21 percent increase over 2003 expenditures. Incremental spending will thus exceed enrollment growth, which according to the U.S. Department of Education is projected to grow by 17 percent from 1989 to 2011 to a record level of 53 million students. The industry is affected by prevailing political and social trends. The attitude of the government towards education determines, to some extent, total expenditures on education. The attitude toward education is generally favorable; however, the industry has been recently affected by the generally weakened economic environment, which has placed pressure on some state and local budgets, the primary sources of school funding.

In January 2002 President Bush signed into law the *No Child Left Behind Act of 2001* designed to improve student achievement in classrooms across the country. The fiscal 2002 federal budget provided for $4.6 billion in federal education funding, an 11 percent increase over the prior year.

The industry is highly fragmented with NSSEA estimating approximately 3,300 education companies providing supplemental education products, many of which are family- or employee-owned businesses that operate in a single geographic region. We believe the increasing demand for single-source suppliers, prompt order fulfillment and competitive pricing, along with the related need for suppliers to

invest in automated inventory and electronic ordering systems, is fostering consolidation within the industry. The industry has been trending toward decentralized, or site-based purchasing, which increases individual school's and teacher's roles in educational products procurement decisions. We believe these changes are driving a shift in growth to the higher margin specialty businesses, which offer more focused products for different educational disciplines.

Recent Acquisitions

Children's Publishing. In January 2004 we acquired select assets of the Children's Publishing business of McGraw-Hill Education, a division of The McGraw-Hill Companies, for approximately $46 million. The Children's Publishing business develops, produces, markets and distributes supplemental education materials (including literature, workbooks and manipulatives), to education companies, retailers and consumers. This business is reported as part of our Specialty segment. The acquisition of Children's Publishing included an operation based in the United Kingdom ("U.K."). On February 29, 2004, we sold the stock of the U.K. based business to Findel Education Ltd. for approximately $4 million.

Califone. In January 2004 we acquired Califone International, Inc. ("Califone") for an aggregate purchase price, net of cash acquired, of approximately $26 million. Califone is the leading developer of quality sound presentation systems including state of the art multimedia, audio-visual and presentation equipment for schools and industry. Califone markets primarily to education companies. This business is reported as a part of our Specialty segment.

Select Agendas. In May 2003 we acquired Select Agendas, a Canadian-based company that produces and markets student agendas, for an aggregate purchase price of approximately $17 million. The business was integrated with Premier Agendas and is reported as part of our Specialty segment.

Sunburst Visual Media. In February 2003 we acquired the visual media division of Sunburst Technology Corporation for approximately $8 million. Sunburst is a leading developer and marketer of proprietary videos, DVDs and related curriculum materials covering the character education, health and guidance curriculums in K-12 schools. Sunburst has been integrated with Teacher's Video as a separate brand offering and is reported in our Specialty segment.

J.L. Hammett. In August 2002 we acquired the remaining wholesale operations of J.L. Hammett ("Hammett") for approximately $14 million. The Hammett business acquired primarily marketed preK-12 educational products to charter schools and national early learning childhood centers. The business has been integrated into our key accounts group within the Traditional segment.

ABC School Supply. In August 2002 we acquired ABC School Supply and related affiliates ("ABC"). ABC, a producer and marketer of pre-K through eighth grade educational products, has been integrated into our Childcraft division and key accounts group. We paid approximately $30 million for ABC and also assumed approximately $11 million of debt.

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Competitive Strengths

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

Number One Market Share. We have the highest revenues of any education company providing supplemental learning products. We have developed this leading market position by emphasizing high-quality products, superior order fulfillment and exceptional customer service. We believe that our large size and brand recognition have resulted in significant buying power, economies of scale and customer loyalty. In addition, our recent acquisitions have allowed us to increase our market presence and provide access to markets we have not historically approached.

Leading Established Brands. We have the most established and recognized brands in the industry. We believe that a majority of our brands have a leading market position in their respective categories, based on revenues. With a historical track record of over 100 years for some brands, the Company's brands represent a significant competitive advantage.

Broad Product Lines. Our strategy is to provide a full range of high-quality supplemental learning products to meet the complete needs of schools for preK-12. With over 85,000 items ranging from classroom essentials, manipulatives and furniture to playground equipment, we provide customers with one source for their supplemental learning materials and furniture needs. In addition to our traditional School Specialty Educator's Marketplace brand, our specialty businesses enrich our general product offering and create opportunities to cross merchandise our specialty products to our traditional customers. Specialty businesses include the following brands:

Brand	Products
Premier Agendas	Student agendas
Childcraft and abc	Early childhood
Sax Arts & Crafts	Art supplies
Children's Publishing	Supplemental educational materials
Frank Schaffer	Supplemental educational materials
ClassroomDirect	General supplies
Sportime	Physical education
Teacher's Video and Sunburst Visual Media	Educational videos
Califone	Sound presentation systems
Frey Scientific	Science
Brodhead Garrett	Industrial arts

Innovative Full-Service Business Model. We have developed a full-service business model with an integrated, multi-channel marketing approach. As a result, we reach district and school administrative decision makers as well as teachers and curriculum specialists through separate sales forces, catalog mailings and the Internet. We utilize our customer database across our family of catalogs to maximize their effectiveness and increase our marketing reach. Additionally, our e-commerce websites provide a comprehensive presence on the Internet which we believe is a significant competitive advantage for us.

Stable Industry with Favorable Trends and Dynamics. Because the market for supplemental learning products is driven primarily by demographics and government spending, we believe our industry is less exposed to economic cycles than many others. We have established working relationships with many large public education organizations and understand how to do business effectively with these institutions. In addition, approximately 70 percent of our revenues are generated from the sale of consumable products, which are generally used each year in the education process and consequently they typically need to be repurchased annually.

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Established Infrastructure and Customer Relationships. We believe our numerous leading brands, national sales force, large and broad product offering, established customer relationships and a national distribution network with multiple sales channels, including e-commerce, give us a significant competitive advantage. The supplemental learning products market is highly seasonal, with a January through July selling season and a June through October shipping season, and our infrastructure and logistical capacities and capabilities permit us to meet the requirements of these peak periods effectively.

Proven Acquisition and Integration Model. We have completed 15 acquisitions since May 1999. We have established a 6 to 12 month target for our integration process in which we form a focused transition team that is assigned the responsibility to sell or discontinue incompatible business units, reduce the number of items in the product offering, eliminate redundant expenses, integrate the acquired entity's business systems, and exploit buying power. We believe we have proven that we can rapidly improve the operating margins of the businesses we acquire by employing an effective integration process.

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

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

Growth Strategy

We use the following strategies to grow and enhance our position as the leading marketer of supplemental learning products:

Internal Growth. We plan to continue to increase our revenues by:

- Taking advantage of market growth resulting from rising expenditures per student, combined with increasing enrollment
- Developing proprietary products that are curriculum and age specific
- Increasing penetration in the early childhood learning market
- Increasing penetration in geographic markets where we are currently underrepresented, including Canada
- Increasing penetration in large districts by offering our single-source product solution
- Cross-merchandising specialty products to traditional customers
- Increasing marketing directed toward teachers
- Encouraging brand loyalty to the total School Specialty brand offering
- Adding new products to enhance the breadth of our product offering
- Pursuing price increases to the extent supported by market conditions
- Adding sales through various e-commerce solutions including Internet channels

Margin Improvement. As we continue to grow our revenues, we plan to increase margins by selling more specialty products, which typically generate higher gross margins due to the large number of proprietary products in the product mix. In addition, we believe we can further improve operating margins by leveraging the benefits of our recent acquisitions and:

- Increasing buying power combined with price expansion
- Reviewing and adjusting the level of customer discounts
- Taking advantage of the industry's shift toward site-based (versus centralized) purchasing
- Increasing our sourcing of product from overseas
- Improving the efficiency of our supply chain activities
- Continuing the elimination of redundant expenses of acquired businesses
- Reducing our overhead costs

Acquisitions. Our selective acquisition strategy and proven integration model have allowed us to solidify our leading position within the industry and establish a strong national marketing and distribution platform. This platform allows us to integrate acquired brands more easily, strengthen our specialty brand portfolio and enter supplemental learning categories in which we do not currently compete, such as music or math. We believe that our size and national presence give us an advantage as a potential acquirer in a consolidating industry.

Furthermore, our proven integration model allows us to realize significant synergies. We believe we have demonstrated our ability to reduce redundant costs, retain the customers of the acquired brands, and integrate distribution networks and information technology platforms. For each acquisition, we generally assume a reduction of approximately 10 percent of the acquired company's revenues. The reduction is expected as we discontinue any unprofitable business lines, divest any product lines outside our core competencies and reduce overlapping sales forces. The integration model is designed to offset the sales reduction and efficiently combine the businesses. The model allows us to smoothly consolidate distribution centers, improve geographic distribution, integrate the back-office functions, expand purchasing power and, when a specialty company is acquired, realize product and margin enhancement related to cross merchandising.

Product Lines

We market two broad categories of supplemental education products: general classroom products and specialty products, including publishing materials, geared towards specific educational disciplines. Our specialty products enrich our general product offering and create opportunities to cross merchandise our specialty products, many of which are proprietary, to our traditional customers. With over 85,000 items ranging from classroom essentials, manipulatives and furniture to playground equipment, we provide customers with one source for their supplemental educational resource needs. Our business is highly seasonal with peak sales levels occurring from June through October.

Our general supplemental educational product lines can be described as follows:

School Specialty. Through the School Specialty Educator's Marketplace catalog, which is targeted to administrative decision makers, we offer a comprehensive selection of classroom essentials, instructional materials, educational games, art supplies, school forms, educational software, physical education equipment, audio-visual equipment, school furniture and indoor and outdoor equipment. We believe we are the largest school furniture source in the United States. We have been granted exclusive franchises for certain furniture lines in specific territories and we enjoy significant purchasing power in open furniture lines. We enhance our furniture offering with a custom design and contract management service called Projects by Design, which assists in the building or renovation of schools.

Our specialty businesses generally offer supplemental educational products for specific disciplines, as follows:

Premier Agendas. Premier Agendas is the largest provider of academic agendas in the United States and Canada. The agendas include proprietary content to promote student success and are marketed under the brands Premier Agendas, Select Agendas and Time Tracker. Premier is also a leading publisher of school forms, including record books, grade books, teacher planners and other printed forms under the brand name Hammond & Stephens.

Childcraft and abc. We develop early childhood education products and materials under the Childcraft and abc brands. Childcraft and abc also market over 2,000 proprietary or exclusive products manufactured by Childcraft's 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 provider 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 professional artists to respond to customer questions.

Children's Publishing. Children's Publishing develops, produces, markets and distributes supplemental education materials including literature, workbooks and manipulatives and owns copyrights to over 5,000 titles under leading imprints including: Instructional Fair, Frank Schaffer, Judy Instructo, Brighter Child, American Education Publishing and Spectrum. These brands are primarily marketed to education companies and retailers through a distributed sales force.

ClassroomDirect. ClassroomDirect offers general supplemental educational products to teachers and curriculum specialists directly through its mail-order catalogs and fully integrated B2T website.

Sportime. Sportime is a leading developer of physical education, athletic and recreational products. Sportime's catalog product offering includes products for early childhood through middle school as well as targeted products for physically or learning challenged children under the brands Abilitations and Integrations.

Teacher's Video and Sunburst Visual Media. Teacher's Video and Sunburst Visual Media are leading producers and marketers of educational videos and DVDs for educators. Teacher's Video targets teachers, curriculum coordinators and department heads through 17 different curriculum-oriented catalogs, with a total annual mailing volume in excess of 18 million catalogs. Sunburst Visual Media produces videos, DVDs and related curriculum materials covering character education, health and guidance curriculums to schools.

Califone. Califone is the leading developer of quality sound presentation systems including state of the art multimedia, audio-visual and presentation equipment for schools and industry.

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

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

Our product development managers apply their extensive education industry experience to design age appropriate and curriculum specific products to enhance the learning experience. New product ideas are reviewed with customer focus groups and advisory panels comprised of educators to ensure new offerings will be well received and fill an educational need.

Our merchandising managers, many of whom were educators, continually review and update the product lines for each business. They determine whether current offerings are attractive to educators and anticipate future demand. The merchandising managers also travel to product fairs and conventions seeking out new product lines. This annual review process results in a constant reshaping and expansion of the educational materials and products we offer.

For further information regarding our Traditional and Specialty segments, see our "Segment Information" in the notes to our consolidated financial statements.

Intellectual Property

We maintain a number of trademarks, trade names and service marks. We believe that many of these marks and trade names have significant value and are materially important to our business. Our trademarks, trade names and service marks include the following: School Specialty Educator's Marketplace, School Specialty Children's Publishing, Spectrum, American Education Publishing, Brighter Child, Frank Schaffer, Instructional Fair, Ideal, Judy, abc School Supply, Abilitations, Brodhead Garrett, Califone, Childcraft Education Corp., Classroom Direct, Frey Scientific, Hammond & Stephens, Premier Agendas, Sax Arts & Crafts, Sax Family & Consumer Sciences, Sportime, Sunburst Visual Media, and Teacher's Video Company. In addition, we maintain other intangible property rights.

Sales and Marketing

We have implemented an innovative multi-channel sales and marketing strategy that employs a traditional sales force of over 350 professionals, a specialty sales force of over 200 professionals, over 40 million catalogs mailed annually, B2T websites and B2B e-commerce solutions. We believe we have developed a substantially different sales and marketing model from that of other supplemental educational resource companies in the United States. Our strategy is to use two separate sales and marketing approaches ("top down" and "bottom up") to reach all the prospective purchasers in the education system.

Traditional Business. Our "top down" marketing approach targets administrative decision-makers through our traditional sales force, the School Specialty Educator's Marketplace general merchandise catalog and the *JuneBox.com* B2B e-commerce solution. This top-down approach accounts for the majority of our traditional business.

Our current primary compensation program for sales representatives includes a base salary plus a bonus based on sales and gross margin achievement.

Schools typically purchase supplemental education products based on established relationships with relatively few vendors. We seek to establish and maintain these critical relationships by assigning accounts within a specific geographic territory to a local area sales representative who is supported by a centrally located customer service team. The customer service representatives frequently call on existing customers to ascertain and fulfill their supplemental educational resource needs. The representatives maintain contact with these customers throughout the order cycle and assist in order processing.

We have a centralized and national sales, marketing, distribution and customer service structure. We believe that this structure significantly improves our effectiveness through better sales management, resulting in higher regional penetration, and significant cost savings through the reduction of distribution centers.

"Projects by Design" is a service we provide to help in the building or renovation of schools. Our professionals prepare a detailed room-by-room analysis to simplify supplemental educational supply planning and fulfillment. Customers have the ability to view prospective classrooms through our innovative software in order to efficiently manage the project.

Specialty Business. We use the "bottom up" approach to target the classroom level decision-makers through our specialty sales force, catalogs featuring our proprietary products and our specialty brands and B2T websites. These catalogs allow teachers to choose products that are specific to their curriculum and classroom needs and may not have been purchased by school administration.

Generally, for each specialty brand, a major catalog containing its full product offering is distributed near the end of the calendar year for the beginning of the January through July selling season. During the course of the year we mail additional supplemental catalogs. Schools and teachers can also access websites for product information and purchasing. Further, we believe that by cross marketing our specialty brands to traditional customers, we can achieve substantial incremental sales.

Internet Operations. We believe the Internet is an effective and efficient sales channel for us and for our customers. Our Internet approach comprises both B2T and a B2B portals to meet the specific needs of each group. We have been involved in e-commerce for over seven years and have developed the leading e-commerce solutions in the industry. All of our specialty companies operate complete information and e-commerce websites. We also offer the School Specialty mall containing most brands. Additionally, a set of e-commerce solutions powered by JuneBox is designed to meet specific and unique needs of educational organizations. The latest generation of School Specialty's e-commerce solution, "Stores" offers a complete on-line catalog for individual teacher purchases as well as a full-featured e-procurement system with workflows and budget management. Other components allow the districts to integrate School Specialty e-commerce systems directly into their business systems, allowing for a more streamlined and accurate procurement process.

Pricing. Pricing for our general and specialty product offerings varies by product and market channel. We generally offer a negotiated discount from catalog prices for products from our School Specialty catalog and respond to quote and bid requests. The pricing structure of proprietary specialty products offered through direct marketing is generally less subject to negotiation.

School Specialty has built a broad customer base where no single customer accounted for more than 2 percent of sales during fiscal 2002, 2003 or 2004. We believe we sell into every school district in the United States and reach nearly all of the country's teachers.

Procurement

Traditional Business. Product selection is evaluated on an annual basis and we typically negotiate an annual supply contract with each of our vendors. Our supply contracts with our larger vendors usually provide for special pricing and/or extended terms and often include volume based incentive and rebate programs. Since 2000 we have marketed products under the private label of ClassroomSelect and recently introduced School Smart, expanding our product selection and allowing for margin expansion. We have also increased our margins by developing and sourcing product directly, primarily through overseas channels, and through our recent acquisitions of Children's Publishing and Califone. This allows us to enhance product offerings and also further expand our margins. We have exclusive distribution rights on several furniture and equipment lines.

Specialty Business. Many of our products in the specialty business are proprietary. We either develop the product or it is an exclusive product developed on our behalf. Typically, we outsource the manufacturing of proprietary products. However, our Childcraft division manufactures wood furniture for sale by Childcraft, abc and our other businesses. We also produce our Teacher's Video proprietary videos at our facility in Tempe, Arizona and our student agendas and school forms are designed and produced at our facilities in Bellingham, Washington; Fremont, Nebraska; Langley, British Columbia; and Lachine, Quebec, as well as through third party printers. We purchase non-proprietary products in the specialty business in a similar manner to that of our traditional business procurement process.

To the extent the traditional and specialty businesses are sourcing product from common vendors, we typically negotiate one contract to take full advantage of our combined buying power. We maintain close and stable relationships with our vendors to facilitate a streamlined procurement process. At the same time, we continually review alternative supply sources in an effort to improve quality, improve customer satisfaction, and reduce product cost. Our transactions with our larger vendors are processed through an electronic procurement process. This electronic process reduces costs and improves accuracy and efficiency in our procurement and fulfillment process.

Logistics

We have built what we believe is the largest and most sophisticated distribution network among our direct marketing competitors, with nine fully-automated and seamlessly-integrated distribution centers that ship directly to the customer. The distribution centers average approximately 200,000 square feet. We also maintain call centers to support customer service and sales. We believe this network represents a significant competitive advantage for us, allowing us to reach any school in a fast and efficient manner. We shipped a majority of stocked inventory via UPS in fiscal 2004 and had a 97 percent on-time delivery rate. The fill-rate of our facilities, defined in terms of lines per order, has generally exceeded 95 percent at the peak of our shipping season. We have the ability to expand the network through additions needed to support sales growth. We are constructing a new leased warehouse and office facility of approximately 400,000 square feet in Mt. Joy, Pennsylvania, which will be completed during fiscal 2005. The facility will replace certain currently leased/existing facilities.

In order to maintain the proprietary nature of some of our specialty products, we operate four manufacturing facilities. The Lancaster, Pennsylvania facility manufactures products primarily for the Childcraft and abc brands, while the Bellingham, Washington; Fremont, Nebraska; Langley, British Columbia; and Lachine, Quebec facilities are used for the production of student agendas and school forms. Our manufactured products account for approximately 7 percent of our revenues.

Information Systems

We believe that through the utilization of technology in areas such as purchasing and inventory management, customer order fulfillment and database management, we are able to turn over inventory more quickly, offer customers more convenient and cost effective ways of ordering products, and more precisely focus our sales and marketing strategies.

In the traditional and certain specialty businesses, we use a specialized distribution software package. This software package, System for Distributors, offers a fully-integrated process from sales order entry through customer invoicing, and inventory requirements planning through accounts payable. Our system provides information through daily automatic posting to the general ledger and integrated inventory control. We have made numerous enhancements that allow greater flexibility in addressing the seasonal requirements of the industry and meeting specific customer needs.

Most of the remaining specialty divisions use a mail-order and catalog system provided by Ecometry Corporation. This system meets the needs of our direct marketing companies with extensive list management and tracking of multiple marketing offers. The system provides complete and integrated order processing, inventory control, warehouse management and financial applications.

During fiscal 2003, we began the implementation of new business systems utilizing Yantra Corporation's order management and warehouse management software. Seven distribution centers are automated and businesses shipping from these centers manage orders using Yantra multi-enterprise order management software. This model will be extended to include additional operations and additional processes and functions during fiscal 2005. By utilizing common systems across our businesses, we expect to achieve an improved order process, reduced order cycle time, enhanced integration between businesses and more effective inventory management. We believe technologies of the new systems will readily support continued growth and integration of new businesses.

Competition

We believe competition in the market in which we operate is fragmented with approximately 3,300 regional suppliers to preK-12 schools. These companies are generally smaller in terms of revenues and serve customers in limited geographic regions. We also compete, to a much lesser extent, with alternate channel competitors such as office product contract stationers and office supply superstores. Their primary advantages over us are size, location, greater financial resources and buying power. Their primary disadvantage is that their product mix typically covers less than 20 percent of the school's needs (measured by volume). We believe we compete favorably with these companies on the basis of service and product offering.

Employees

As of June 1, 2004, we had approximately 2,800 full-time employees. To meet the seasonal demands of our customers, we employ many seasonal employees during the late spring and summer months. Historically, we have been able to meet our requirements for seasonal employment. None of our employees are represented by a labor union. We consider our relations with our employees to be very good.

Backlog

We have no material backlog at April 24, 2004. Our customers typically purchase products on an as-needed basis.

Forward-Looking Statements

Statements in this Annual Report which are not historical are "forward-looking" statements within the meaning of the Private Securities Litigation Reform Act of 1995. The forward-looking statements include: (1) statements made under Item 1, Business and Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations, including, without limitation, statements with respect to internal growth plans, projected revenues, margin improvement, future acquisitions, capital expenditures and adequacy of capital resources; (2) statements included or incorporated by reference in our future filings with the Securities and Exchange Commission; and (3) information contained in written material, releases and oral statements issued by, or on behalf of, School Specialty including, without limitation, statements with respect to projected revenues, costs, earnings and earnings per share. Forward-looking statements also include statements regarding the intent, belief or current expectation of School Specialty or its officers. Forward-looking statements include statements preceded by, followed by or that include forward-looking terminology such as "may," "will," "should," "believes," "expects," "anticipates," "estimates," "continues" or similar expressions.

All forward-looking statements included in this Annual Report are based on information available to us as of the date hereof. We do not undertake to update any forward-looking statements that may be made by or on behalf of us, in this Annual Report or otherwise. Our actual results may differ materially from those contained in the forward-looking statements identified above. Factors which may cause such a difference to occur include, but are not limited to, the factors listed in Exhibit 99.2 to our Form 10-K for fiscal 2004.

Item 2. Properties

Our corporate headquarters is located in a leased facility. The lease on this facility expires in April 2021. The facility is located at W6316 Design Drive, Greenville, Wisconsin, a combined office and warehouse facility of approximately 332,000 square feet, which also services both our Traditional and Specialty segments. In addition, we lease or own the following principal facilities as of June 1, 2004:

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Locations	Approximate Square Footage	Owned/ Leased	Lease Expiration
Agawam, Massachusetts (1)	188,000	Leased	November 30, 2020
Atlanta, Georgia (2)	20,000	Leased	January 31, 2006
Bellingham, Washington (2)	49,000	Leased	March 31, 2011
Bellingham, Washington (2)	61,000	Leased	July 14, 2007
Birmingham, Alabama (2)	25,000	Leased	December 31, 2010
Columbus, Ohio (2)	18,000	Leased	July 31, 2006
Chatsworth, California (2) (4)	20,000	Leased	
Duluth, Georgia (3)	238,000	Leased	November 30, 2004
Fremont, Nebraska (2)	95,000	Leased	June 30, 2008
Fresno, California (3)	163,000	Leased	November 1, 2009
Lachine, Quebec (2)	50,000	Leased	May 30, 2006
Lancaster, Pennsylvania (2)	73,000	Leased	December 31, 2007
Lancaster, Pennsylvania (2)	126,000	Leased	October 31, 2005
Lancaster, Pennsylvania (2)	204,000	Leased	October 31, 2005
Langley, British Columbia (2)	9,000	Leased	August 31, 2008
Langley, British Columbia (2)	10,000	Leased	August 31, 2008
Lyons, New York (1)	179,000	Owned	—
Mansfield, Ohio (3)	315,000	Leased	November 30, 2020
Mt. Joy, Pennsylvania (5)	400,000	Leased	January 1, 2025
New Berlin, Wisconsin (2)	16,000	Leased	September 30, 2007
Norcross, Georgia (3)	41,000	Leased	January 1, 2011
Salina, Kansas (1)	123,000	Owned	—
Southaven, Mississippi (3)	200,000	Leased	December 31, 2010
Tempe, Arizona (2)	57,000	Leased	February 28, 2005
Walker, Michigan (2)	100,000	Leased	December 31, 2006
Walker, Michigan (2)	146,000	Leased	December 31, 2006
Walker, Michigan (2)	200,000	Leased	July 31, 2011

(1) Location primarily services the Traditional segment.
(2) Location primarily services the Specialty segment.
(3) Location primarily services both business segments.
(4) Facility lease at this location is renewed monthly.
(5) Under construction.

The 73,000 square foot Lancaster, Pennsylvania facility is used for manufacturing and the Fremont, Nebraska; Langley, British Columbia; Lachine, Quebec; and Bellingham, Washington facilities are used for production of agendas and school forms. The other facilities are distribution centers and/or office space. We believe that our properties, as enhanced for our ongoing expansion, are adequate to support our operations for the foreseeable future. We regularly review the utilization and consolidation of our facilities.

Item 3. Legal Proceedings

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

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

There were no matters submitted during the quarter ended April 24, 2004 to a vote of our security holders.

EXECUTIVE OFFICERS OF THE REGISTRANT

As of June 1, 2004, the following persons served as executive officers of School Specialty:

Name and Age of Officer	
David J. Vander Zanden Age 49	Mr. Vander Zanden became President and Chief Executive Officer of School Specialty in September 2002, after serving as Interim Chief Executive Officer since March 2002. Mr. Vander Zanden served as President and Chief Operating Officer from March 1998 to March 2002. From 1992 to March 1998, he served as President and Chief Executive Officer of Ariens Company, a manufacturer of outdoor lawn and garden equipment. Mr. Vander Zanden has served as a director of School Specialty since June 1998.
Mary M. Kabacinski Age 55	Ms. Kabacinski, a Certified Public Accountant, has served as Executive Vice President and Chief Financial Officer of School Specialty since August 1999. From 1989 to 1999, she served as Senior Vice President and Chief Financial Officer for Marquette Medical Systems, a manufacturer of medical devices.
A. Brent Pulsipher Age 62	Mr. Pulsipher became Executive Vice President of Corporate Technology in April 2004, after serving as Executive Vice President of Corporate Logistics and Technology of School Specialty since March 2001. From 1998 to 2001, Mr. Pulsipher was Chief Information Officer for Tropical Sportswear International, an apparel producer and brand manager. Mr. Pulsipher held the position of Manager of Consulting Services for Distribution Resources Company, a software developer, from 1988 to 1998.
Stephen R. Christiansen Age 42	Mr. Christiansen joined School Specialty in November 2002 as Executive Vice President, Specialty Companies, following a thirteen-year tenure with Kimberly-Clark Corporation, a world-wide manufacturer of personal care and health care products, where he held progressive marketing and general management positions in the United States and Latin America.

The term of office of each executive officer is from one annual meeting of the Board of Directors until the next annual meeting of the Board of Directors or until a successor for each is selected. There are no arrangements or understandings between any of our executive officers and any other person (not an officer or director of School Specialty acting as such) pursuant to which any of our executive officers were selected as an officer of School Specialty.

PART II

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

Market Information

Our common stock is traded under the symbol "SCHS" on The Nasdaq National Market. The table below sets forth the reported high and low closing sale prices for shares of the common stock, as reported by the National Association of Securities Dealers, Inc. during the indicated quarters.

Fiscal 2004 quarter ended	High	Low
July 26, 2003	$30.59	$18.08
October 25, 2003	29.83	26.25
January 24, 2004	36.85	27.05
April 24, 2004	37.06	33.32

Fiscal 2003 quarter ended	High	Low
July 27, 2002	$28.84	$21.19
October 26, 2002	26.51	20.58
January 25, 2003	25.80	19.06
April 26, 2003	20.21	17.25

Holders

As of June 1, 2004, there were 2,102 record holders of our common stock.

Historical Dividends

We have not declared or paid any cash dividends on our common stock to date. We currently intend to retain our future earnings to finance the growth, development and expansion of our business. Accordingly, we do not expect to pay cash dividends on our common stock in the foreseeable future. In addition, our ability to pay dividends may be restricted or prohibited from time to time by financial covenants in our credit agreements and debt instruments. Our current credit facility contains restrictions on, and in some circumstances, may prevent, our payment of dividends.

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Item 6. Selected Financial Data

SELECTED FINANCIAL DATA
(in thousands, except per share data)(1)

	Fiscal Year				
	2004	2003	2002	2001	2000
Statement of Operations Data:					(53 weeks)
Revenues	$ 907,503	$ 870,030	$ 767,387	$ 692,674	$639,271
Cost of revenues	532,824	512,167	473,407	440,946	406,043
Gross profit	374,679	357,863	293,980	251,728	233,228
Selling, general and administrative expenses	288,560	271,916	236,436	208,153	184,586
Restructuring and strategic restructuring costs	—	—	—	4,500	—
Operating income	86,119	85,947	57,544	39,075	48,642
Interest expense (net)	18,284	18,001	17,279	16,855	13,151
Other expense	1,123	1,909	3,965	1,214	1,856
Income before provision for income taxes	66,712	66,037	36,300	21,006	33,635
Provision for income taxes	25,915	26,447	14,521	9,075	15,120
Net income (2)	$ 40,797	$ 39,590	$ 21,779	$ 11,931	$ 18,515
Net income per share:					
Basic	$ 2.17	$ 2.16	$ 1.22	$ 0.68	$ 1.06
Diluted	$ 1.94	$ 1.94	$ 1.17	$ 0.67	$ 1.06
Weighted average shares outstanding:					
Basic	18,828	18,324	17,917	17,495	17,429
Diluted	24,125	23,378	18,633	17,782	17,480
Selected Operating Data:					
EBITDA (3)	$ 104,024	$ 101,468	$ 68,742	$ 54,037	$ 60,481
Free cash flow (3)	$ 52,391	$ 55,376	$ 64,838	$ 27,449	$ 13,625
	April 24, 2004	April 26, 2003	April 27, 2002	April 28, 2001	April 29, 2000
Balance Sheet Data:					
Working capital	$ 132,001	$ 95,946	$ 77,273	$ 84,925	$116,857
Total assets	832,607	736,335	673,642	523,359	454,849
Long-term debt	314,104	292,844	285,592	176,183	144,789
Total debt	314,628	293,356	290,063	198,038	162,180
Shareholders’ equity	378,975	321,453	271,170	239,252	224,993

(1) Our business has grown significantly since 2000 through acquisitions and internal growth. For detailed information on acquisitions during fiscal years 2004, 2003 and 2002, see the “Business Combinations” note in our notes to consolidated financial statements. During fiscal 2001, we made two acquisitions under the purchase method for an aggregate purchase price of approximately $116.6 million, and during fiscal 2000, we made two acquisitions under the purchase method for an aggregate purchase price of approximately $2.5 million.

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(2) At the beginning of fiscal 2002, we adopted SFAS No. 142, "Goodwill and Other Intangible Assets," which resulted in goodwill no longer being subject to amortization. Goodwill amortization, net of tax, included in net income during fiscal years 2001 and 2000 was $5.0 million and $4.5 million, respectively.

(3) The following table discloses our EBITDA (earnings before interest and other, taxes, depreciation and amortization) and free cash flow, which are considered non-GAAP financial measures. Generally, a non-GAAP financial measure is a numerical measure of a company's performance, financial position or cash flows that either excludes or includes amounts that are not normally excluded or included in the most directly comparable measure calculated and presented in accordance with GAAP. We believe that certain non-GAAP financial measures, including EBITDA and free cash flow, are helpful when presented in conjunction with the comparable GAAP measures. EBITDA eliminates the effects of interest and other, taxes, depreciation and amortization from period to period, which we believe is useful to management, investors and other interested parties in evaluating our operating performance as these costs are not directly attributable to the underlying performance of the business operations.

Free cash flow is used as a liquidity measure that provides useful information to management, investors and other interested parties about the amount of cash generated by the business after reinvestment of cash from operations in capital expenditures. We use free cash flow as a financial metric to evaluate investing and financing alternatives. Free cash flow is the amount of cash generated from operating activities after the acquisition of property and equipment and investment in development costs, net of proceeds from disposal of property and equipment. Cash flow from operating activities is further adjusted for the activity under our accounts receivable securitization facility, which we consider a financing instrument. In addition, we refer to these financial measures to facilitate comparisons to historical results.

These financial measures should be considered in addition to, and not as a substitute for net income or operating income, cash flows or other measures of financial performance prepared in accordance with GAAP. The non-GAAP measures included below have been reconciled to the most directly comparable GAAP measure, as included in our consolidated financial statements included within Item 8, "Financial Statements and Supplementary Data." As used herein, "GAAP" refers to accounting principles generally accepted in the United States.

	Fiscal Year				
	2004	2003	2002	2001	2000
					(53 weeks)
Earnings before interest and other, taxes, depreciation and amortization (EBITDA):					
Net income	$ 40,797	$ 39,590	$ 21,779	$ 11,931	$ 18,515
Provision for income taxes	25,915	26,447	14,521	9,075	15,120
Net interest expense and other	19,407	19,910	21,244	18,069	15,007
Depreciation and amortization expense	17,905	15,521	11,198	14,962	11,839
EBITDA	$104,024	$101,468	$ 68,742	$ 54,037	$ 60,481
Free cash flow reconciliation:					
Net cash provided by operating activities	$ 68,956	$ 62,966	$ 76,216	$ 86,017	$ 30,976
Additions to property and equipment	(8,974)	(11,305)	(12,110)	(15,200)	(17,351)
Investment in development costs	(4,726)	(940)	(603)	—	—
Proceeds from disposal of property and equipment	1,135	655	1,335	6,632	—
Net accounts receivable securitization facility activity	(4,000)	4,000	—	(50,000)	—
Free cash flow	$ 52,391	$ 55,376	$ 64,838	$ 27,449	$ 13,625

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations ("MD&A")

You should read the following discussion and analysis in conjunction with our consolidated financial statements and related notes, included elsewhere in this Annual Report.

Overview

We are a leading education company serving the preK-12 education market by providing products, services and ideas that enhance student achievement and development to educators and schools across the United States and Canada. We offer more than 85,000 items through an innovative two-pronged marketing approach that targets both school administrators and individual teachers.

We have grown significantly in recent years through acquisitions and internal growth. For information on our recent acquisitions see the "Business Combinations" note in the notes to our consolidated financial statements. Our revenues for fiscal 2004 were $907.5 million and our operating income was $86.1 million, which represented compound annual revenue growth of 9.2% and compound annual operating income growth of 15.4%, compared to our fiscal 2000 results.

Our gross margin has improved from 36.5% in fiscal 2000 to 41.3% in fiscal 2004. This improvement was due to an increase in our offering of proprietary products and increased buying power. We have acquired many specialty businesses, which tend to have more proprietary products in their offerings and consequently higher gross margins than our traditional businesses. The specialty businesses have also experienced higher revenue growth than the traditional business, resulting in an improved, higher gross margin, product mix. In addition, our acquisitions of both specialty and traditional businesses have increased our purchasing power, resulting in reduced costs of the products we purchase.

Our operating profit and margins have also improved significantly since fiscal 2000. This improvement reflects our acquisitions of specialty businesses, which typically have higher operating margins than our traditional business. In addition, through the integration of acquired businesses, we have been able to further improve our operating profit and margins by eliminating redundant expenses, leveraging overhead costs and improving purchasing power.

As a result of integrating acquired operations, we recorded a restructuring charge in fiscal 2001. The charge was incurred primarily to close existing facilities and to consolidate operations that, when combined with acquired operations, became redundant. To the extent our integrations have resulted in certain exit costs such as the closure of acquired facilities, the costs were accrued in purchase accounting.

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

Our business is highly seasonal, and the acquisitions of seasonal businesses during the off season has depressed operating margins and income in the year of acquisition, the most dramatic of which were the J.L. Hammett acquisition in fiscal 2001 and Premier Agendas in fiscal 2002.

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Results of Operations

The following table sets forth certain information as a percentage of revenues on a historical basis concerning our results of operations for the fiscal years 2004, 2003 and 2002.

	Fiscal Year		
	2004	2003	2002
Revenues	100.0%	100.0%	100.0%
Cost of revenues	58.7	58.9	61.7
Gross profit	41.3	41.1	38.3
Selling, general and administrative expenses	31.8	31.2	30.8
Operating income	9.5	9.9	7.5
Interest expense, net	2.0	2.1	2.3
Other expense	0.1	0.2	0.5
Income before provision for income taxes	7.4	7.6	4.7
Provision for income taxes	2.9	3.0	1.9
Net income	4.5%	4.6%	2.8%

Consolidated Historical Results of Operations

Fiscal 2004 Compared to Fiscal 2003

Overview of Fiscal 2004

Revenues for fiscal 2004 increased 4.3% to $907.5 million as compared to $870.0 million in fiscal 2003. The revenue growth was driven by acquisitions and modest growth in existing specialty businesses. During the fiscal year, we acquired Select Agendas in May and Califone and Children's Publishing in January. All of these businesses, which are reported as part of our Specialty segment, contributed to our revenue growth, with the revenue growth being partially offset by a decline in Traditional segment revenues of 0.8%. Fiscal 2004 provided a very challenging funding year for most of our customers, as the weakened economic environment placed pressure on most state and local budgets, which are the primary funding sources for most of our customers. We continued to drive our product mix to higher margin proprietary products, with the Specialty segment representing 48.4% of revenues in fiscal 2004 as compared with 45.7% in fiscal 2003. This shift in product mix to higher margin specialty products expanded gross margins to 41.3% from 41.1%. Net income was $40.8 million as compared to $39.6 million in fiscal 2003, primarily reflecting contributions from acquired businesses.

During fiscal 2004 we completed a convertible debt offering, producing net proceeds of $129.0 million, which were used to pay-down our credit facility. Additionally, we sold a portion of the Children's Publishing business that was based in the United Kingdom in February.

Revenues

The increase in revenues was primarily due to revenues from acquired businesses and modest growth from existing specialty businesses. Revenues increased 4.3% from $870.0 million in fiscal 2003 to $907.5 million in fiscal 2004. Traditional segment revenues decreased 0.8% from $472.5 million in fiscal 2003 to $468.5 million in fiscal 2004. The decrease in Traditional segment revenues was primarily in the furniture lines, which tend to be more of a discretionary purchase than a consumable purchase which is generally needed and consumed in the education process. The weakened economic environment placed pressure on many state and local budgets, which are the primary funding sources for most of our customers. Specialty segment revenues increased 10.4% from $397.6 million in fiscal 2003 to $439.0 million in fiscal 2004. The increase in Specialty segment revenues was primarily due to acquisitions and modest growth in existing businesses.

Gross Profit

Gross profit increased 4.7% from $357.9 million in fiscal 2003 to $374.7 million in fiscal 2004. The increase in gross profit was due to an increase in revenues and improved gross margins, combined with a shift in revenues to the higher gross margin Specialty segment. In fiscal 2004, Specialty segment revenues accounted for 48.4% of total revenues, up from 45.7% in fiscal 2003. Gross margin grew 20 basis points from 41.1% of revenues in fiscal 2003 to 41.3% of revenues in fiscal 2004. The increase in gross margin was primarily due to the shift in revenues to the higher gross margin Specialty segment. The increase in gross margin in the Specialty segment from 49.4% in fiscal 2003 to 49.8% in fiscal 2004 was primarily driven by higher gross margins from acquired businesses. Traditional segment gross margin decreased 90 basis points from 34.2% of revenues in fiscal 2003 to 33.3% of revenues in fiscal 2004, due primarily to the weakened economic environment which resulted in a more competitive pricing environment, particularly in the bid and furniture portions of the business.

Selling, General and Administrative Expenses

Selling, general and administrative expenses ("SG&A") include selling expenses, the most significant component of which is sales wages and commissions; operations expenses, which includes customer service, warehouse and warehouse shipments transportation costs; catalog costs; general administrative overhead, which includes information systems, accounting, legal, and human resources; and depreciation and intangible asset amortization expense.

SG&A increased 6.1% from $271.9 million or 31.2% of revenues in fiscal 2003 to $288.6 million or 31.8% of revenues in fiscal 2004. The increase in SG&A and SG&A as a percent of revenues was primarily due to acquisitions (carrying of infrastructure and our acquisitions were Specialty businesses, which have a higher SG&A cost structure), an increase in revenues, increased warehouse and transportation costs associated with late season orders and shipments, supply chain optimization projects and increased marketing costs to support new initiatives. These increases were partially offset by efficiencies obtained from integration efforts and successful expense reduction efforts.

Traditional segment SG&A decreased $4.7 million from $113.4 million or 24.0% of Traditional segment revenues in fiscal 2003 to $108.7 million or 23.2% of Traditional segment revenues in fiscal 2004. The decrease in Traditional segment SG&A was primarily due to reduced commissions, driven by reduced revenues and gross margins in the Traditional segment, and fiscal 2003 included $1.2 million of costs to close the Lufkin, Texas warehouse. These reductions in SG&A were partially offset by increased warehouse and transportation expense associated with late season orders and shipments and costs for a supply optimization project. Specialty segment SG&A increased $20.2 million from $138.4 million in fiscal 2003 to $158.6 million in fiscal 2004. The increase in Specialty segment SG&A was primarily due to an increase in revenues and costs related to operating acquired businesses. Specialty segment SG&A as a percent of Specialty segment revenues increased 130 basis points from 34.8% of revenues in fiscal 2003 to 36.1% of revenues in fiscal 2004. The increase in SG&A as a percent of revenues was primarily due to incremental marketing expenses to support new initiatives and increased warehouse and transportation costs associated with late season shipments and orders and costs related to a supply chain optimization project.

Interest Expense

Net interest expense increased 1.6% from $18.0 million in fiscal 2003 to $18.3 million in fiscal 2004. The increase in net interest expense was due to an increase in average debt outstanding, partially offset by a modest reduction in our effective borrowing rate.

Other Expenses

Other expenses, which consist of the discount and loss on the accounts receivable securitization, decreased $0.8 million from $1.9 million in fiscal 2003 to $1.1 million in fiscal 2004. The decrease in the discount and loss was primarily due to a decrease in average accounts receivable securitized and a reduction in the discount rate.

Provision for Income Taxes

The provision for income taxes was $25.9 million in fiscal 2004 as compared to $26.4 million in fiscal 2003, reflecting effective income tax rates of 38.8% and 40.0%, respectively. The reduction in the effective income tax rate was primarily due to lower effective state income tax rates. The higher effective tax rate, compared to the federal statutory rate of 35%, was primarily due to state income taxes.

Fiscal 2003 Compared to Fiscal 2002

Revenues

Revenues increased 13.4% from $767.4 million in fiscal 2002 to $870.0 million in fiscal 2003. Traditional segment revenues decreased 1.8% from $480.9 million in fiscal 2002 to $472.5 million in fiscal 2003. The decrease in Traditional segment revenues was primarily due to a generally weakened economic environment which has placed pressure on some state and local budgets, partially offset by revenues from acquired businesses. Specialty segment revenues increased 38.8% from $286.5 million in fiscal 2002 to $397.6 million in fiscal 2003. The increase in Specialty segment revenues was primarily due to acquisitions and modest growth in existing businesses.

Gross Profit

Gross profit increased 21.7% from $294.0 million in fiscal 2002 to $357.9 million in fiscal 2003. The increase in gross profit was due to an increase in revenues and gross margins, and a shift in revenues to the higher margin Specialty segment. In fiscal 2003, Specialty segment revenues accounted for 45.7% of total revenues, up from 37.3% in fiscal 2002. Gross margin grew 280 basis points from 38.3% of revenues in fiscal 2002 to 41.1% of revenues in fiscal 2003. The increase in gross margin was primarily due to improvement in the Specialty segment gross margin from 45.6% of revenues in fiscal 2002 to 49.4% of revenues in fiscal 2003. The increase in gross margin in the Specialty segment was primarily driven by mix, with higher gross margins from acquired businesses, and successful pricing initiatives in core businesses. Traditional segment gross margin expanded 30 basis points from 33.9% of revenues in fiscal 2002 to 34.2% of revenues in fiscal 2003, driven primarily by improved consumable pricing and reduced product cost.

Selling, General and Administrative Expenses

SG&A increased 15.0% from $236.4 million or 30.8% of revenues in fiscal 2002 to $271.9 million or 31.2% of revenues in fiscal 2003. Increase in SG&A and SG&A as a percent of revenues was

primarily due to acquisitions, an increase in revenues, and a shift in revenue mix to increased Specialty segment revenues, which generally have higher operating costs than the Traditional segment primarily due to increased marketing costs. These increases were partially offset by efficiencies obtained from integration efforts and successful expense reduction efforts.

Traditional segment SG&A increased $4.3 million from $109.1 million or 22.7% of Traditional segment revenues in fiscal 2002 to $113.4 million or 24.0% of Traditional segment revenues in fiscal 2003. The increase in Traditional segment SG&A was primarily due to costs associated with closing our Lufkin, Texas facility, which supported the Traditional segment, of approximately $1.2 million and costs related to operating businesses acquired during the off season. Specialty segment SG&A increased $30.2 million from $108.2 million in fiscal 2002 to $138.4 million in fiscal 2003. The increase in Specialty segment SG&A was primarily due to an increase in revenues and costs related to operating acquired businesses which were purchased during the off season. Specialty segment SG&A as a percent of Specialty segment revenues decreased 300 basis points from 37.8% of revenues in fiscal 2002 to 34.8% of revenues in fiscal 2003. The decrease in SG&A as a percent of revenues was primarily due to the inclusion of Premier Agendas for a full fiscal year, which was acquired during the off season in fiscal 2002 and contributed minimal revenue and a non-recurring charge that occurred in fiscal 2002 related to closing the Birmingham, Alabama distribution center.

Interest Expense

Net interest expense increased 4.2% from $17.3 million in fiscal 2002 to $18.0 million in fiscal 2003. The increase in net interest expense was due to an increase in average debt outstanding, partially offset by a reduction in our effective borrowing rate on our credit facility.

Other Expenses

Other expenses decreased $2.1 million from $4.0 million in fiscal 2002 to $1.9 million in fiscal 2003. Other expenses for fiscal 2003 primarily represented the discount and loss on securitized accounts receivable of $1.8 million. Discount and loss on securitized accounts receivable for fiscal 2002 was $2.0 million. The decrease in the discount and loss was primarily due to a reduction in the discount rate partially offset by an increase in the average securitized accounts receivable. Other expenses for fiscal 2002 included a $1.7 million write-off of a long-term investment, and $0.3 million realized gain on the sale of available-for-sale securities.

Provision for Income Taxes

The provision for income taxes increased to $26.4 million in fiscal 2003 from $14.5 million in fiscal 2002, reflecting effective income tax rates of 40.0% for each period. The higher effective tax rate, compared to the federal statutory rate of 35%, was primarily due to state and local income taxes.

Liquidity and Capital Resources

At April 24, 2004, we had working capital of $132.0 million. Our capitalization at April 24, 2004 was $693.6 million, consisting of total debt of $314.6 million and shareholders' equity of $379.0 million.

On April 11, 2003 we amended and extended our revolving credit facility with Bank of America, N.A., acting as agent. The new credit agreement matures on April 11, 2006 and provides for $250 million of availability. The amount outstanding as of April 24, 2004 under the credit facility was $14.4 million. The credit facility is secured by substantially all of our assets and contains certain financial and other covenants. During fiscal 2004, we borrowed under our credit facility primarily for seasonal working

capital and acquisitions. Our borrowings are usually significantly higher during the first two quarters of our fiscal year to meet the working capital needs of our peak selling season. As of April 24, 2004, our effective interest rate on borrowings under our credit facility was approximately 3.59%, which excludes amortization of loan origination fee costs and the commitment fees on unborrowed funds. During fiscal 2004, we paid commitment fees on unborrowed funds under the credit facility in the range of 42.5 basis points to 47.5 basis points and amortized loan origination fee costs of $0.5 million related to the credit facility during fiscal 2004.

On July 18, 2003, we sold an aggregate principal amount of $110 million of convertible subordinated notes due August 1, 2023. On July 30, 2003, the initial purchasers of the notes exercised their option to purchase an additional $23.0 million of these notes. The notes carry an annual interest rate of 3.75% which, depending on the market price of the notes, could be subject to an upward adjustment commencing August 1, 2008. The notes, which provide for a contingent conversion feature, are convertible into shares of our common stock at an initial conversion price of $40.00 per share if the closing price of the Company’s common stock on The Nasdaq National Market exceeds $48.00 for a specified amount of time and under certain other circumstances. We used the total net proceeds from the offering of $129.0 million to repay a portion of the debt outstanding under our credit facility.

On July 30, 2001, we sold an aggregate principal amount of $130 million of 6% convertible subordinated notes due August 1, 2008. On August 2, 2001, the initial purchasers of the notes exercised their option to purchase an additional $19.5 million of these notes. The notes are convertible at any time prior to maturity into shares of our common stock at a conversion price of $32.29 per share and accrue interest payable semi-annually. We used the total net proceeds from the offering of $144.6 million to repay a portion of the debt outstanding under the credit facility that was in effect at the time.

In November 2000, we entered into two sale-leaseback transactions which are accounted for as financings. Under the agreements, we recorded $18.5 million of debt, which has an effective interest rate of 8.97%, excluding amortization of related fees. The leases expire in November 2020. The amount outstanding as of April 24, 2004 under the agreements was $17.4 million.

Net cash provided by operating activities was $69.0 million in fiscal 2004 compared to $63.0 million in fiscal 2003. The increase in cash from operating activities was primarily due to a $4 million increase in amounts advanced under the accounts receivable securitization facility described below and a reduction in accounts receivable outstanding due to faster collection. These contributions to cash provided by operations were partially offset by an increase in inventories. The increase in our inventories was caused by the earlier purchasing cycle of Califone and Children’s Publishing relative to most of our other businesses, a planned increase in importing and the purchase of larger quantities in advance of the season for key products to avoid stock-outs during the season.

Net cash used in investing activities during fiscal 2004 was $97.8 million. Of this amount, $89.3 million was used for acquisitions (Califone, Children’s Publishing and Select Agendas) and $9.0 million was used for capital expenditures, primarily consisting of computer hardware and software and distribution equipment related to the implementation of our new business systems. Net cash used in investing activities during fiscal 2003 was $67.4 million, including $55.8 million for acquisitions (primarily ABC School Supply and certain assets of J.L. Hammett) and $11.3 million for capital expenditures.

Net cash provided by financing activities during fiscal 2004 was $28.8 million. $133.0 million in proceeds from the July 2003 convertible debt offering were used to repay debt outstanding under the credit facility. Fees associated with the offering were approximately $4.0 million. Cash from option exercises was $11.7 million. Net cash provided by financing activities during fiscal 2003 was $0.7 million.

Net repayments on bank borrowings and capital leases of $4.1 million and payment of related debt fees of $1.6 million, primarily relating to the new credit facility, were offset by $6.4 million of proceeds from stock option exercises.

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

We expect our fiscal 2005 capital expenditures to be approximately $12 to $14 million and to consist primarily of computer hardware and software costs related to continued implementation of our new business systems and warehouse equipment costs for a new facility under construction in Pennsylvania.

Off Balance Sheet Arrangements

We currently have a $100 million accounts receivable securitization facility which expires in November 2004. We entered into the facility for the purpose of reducing our variable rate interest expense. The facility was amended during November 2003 to extend the expiration date to November 2004 and may be extended further with the financial institution's consent. At April 24, 2004, $50 million was advanced under the accounts receivable securitization and accordingly, that amount of accounts receivable has been removed from our consolidated balance sheet. Costs associated with the sale of receivables, primarily related to the discount and loss on sale, for fiscal 2004 were $1.2 million and are included in other expenses in our consolidated statement of operations.

Summary of Contractual Obligations

The following table summarizes our contractual debt and operating lease obligations as of April 24, 2004:

	Payments Due (in thousands)				
	Total	Less than 1 year	1 – 3 years	3 – 5 years	More than 5 years
Long-term debt obligations (1)	$ 484,254	$16,602	$46,640	$ 174,743	$ 246,269
Capital lease obligations	352	209	124	19	—
Operating lease obligations	78,428	10,385	17,203	9,828	41,012
Purchase obligations (2)	—	—	—	—	—
Other long-term liabilities reflected on the Company's balance sheet under GAAP	—	—	—	—	—
Total contractual obligations	$ 563,034	$27,196	$63,967	$ 184,590	$ 287,281

(1) Debt obligations includes principal and interest payments on our credit facility, convertible debt and sale-leaseback obligations, and assumes these obligations remain outstanding until maturity at current or contractually defined interest rates.

(2) As of April 24, 2004, we did not have any material long-term purchase obligations. Any short-term purchase obligations the Company had as of April 24, 2004 were primarily for the purchase of inventory in the normal course.

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Fluctuations in Quarterly Results of Operations

Our business is subject to seasonal influences. Our historical revenues and profitability have been dramatically higher in the first two quarters of our fiscal year, primarily due to increased shipments to customers coinciding with the start of each school year. Quarterly results also may be materially affected by the timing of acquisitions, the timing and magnitude of costs related to such acquisitions, variations in our costs for the products sold, the mix of products sold and general economic conditions. Moreover, the operating margins of companies we acquire may differ substantially from our own, which could contribute to further fluctuation in quarterly operating results. Therefore, results for any quarter are not indicative of the results that we may achieve for any subsequent fiscal quarter or for a full fiscal year.

The following table sets forth certain unaudited consolidated quarterly financial data for fiscal years 2004 and 2003. We derived this quarterly data from our unaudited consolidated financial statements.

	Fiscal 2004				
	First	Second	Third	Fourth	Total
Revenues	$ 304,430	$ 335,066	$ 106,609	$ 161,398	$ 907,503
Gross profit	127,929	135,865	42,304	68,581	374,679
Operating income (loss)	49,058	53,998	(11,801)	(5,136)	86,119
Net income (loss)	27,142	29,881	(10,106)	(6,120)	40,797
Per share amounts:					
Basic	$ 1.46	$ 1.59	$ (0.53)	$ (0.32)	$ 2.17
Diluted	$ 1.21	$ 1.31	$ (0.53)	$ (0.32)	$ 1.94

	Fiscal 2003				
	First	Second	Third	Fourth	Total
Revenues	$ 298,027	$ 317,399	$ 110,554	$ 144,050	$ 870,030
Gross profit	124,491	129,909	42,715	60,748	357,863
Operating income (loss)	44,938	53,707	(9,517)	(3,181)	85,947
Net income (loss)	23,956	29,030	(8,541)	(4,855)	39,590
Per share amounts:					
Basic	$ 1.32	$ 1.59	$ (0.46)	$ (0.26)	$ 2.16
Diluted	$ 1.08	$ 1.30	$ (0.46)	$ (0.26)	$ 1.94

Inflation

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

Critical Accounting Policies

We believe the policies identified below are critical to our business and the understanding of our results of operations. The impact and any associated risks related to these policies on our business are discussed throughout MD&A where applicable. Refer to the notes to our consolidated financial statements in Item 8 for detailed discussion on the application of these and other accounting policies. The preparation of the consolidated financial statements 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. We evaluate our estimates on an ongoing basis and base them on a combination of historical experience and various other assumptions that are believed to be reasonable under the circumstances. Actual results could differ from those estimates. Our critical accounting policies that require significant judgments and estimates used in the preparation of our consolidated financial statements are as follows:

Revenue Recognition

Revenue, net of estimated returns and allowances, is recognized upon the shipment of products or upon the completion of services provided to customers, which corresponds to the time when risk of ownership transfers, the selling price is fixed, the customer is obligated to pay and we have no significant remaining obligations. Cash received in advance from customers is deferred on our balance sheet as a current liability and recognized upon the shipment of products or upon the completion of services provided to the customers.

Catalog Costs and Related Amortization

We spend over $30 million annually to produce and distribute catalogs. We accumulate all direct costs incurred, net of vendor cooperative advertising payments, in the development, production and circulation of our catalogs on our balance sheet until such time as the related catalog is mailed. They are subsequently amortized into SG&A over the expected sales realization cycle, which is one year or less. Consequently, any difference between our estimated and actual revenue stream for a particular catalog and the related impact on amortization expense is neutralized within a period of one year or less. Our estimate of the expected sales realization cycle for a particular catalog is based on, among other possible considerations, our historical sales experience with identical or similar catalogs and our assessment of prevailing economic conditions and various competitive factors. We track our subsequent sales realization, reassess the marketplace, and compare our findings to our previous estimate and adjust the amortization of our future catalogs, if necessary.

Development Costs

We accumulate external and certain internal costs incurred in the development of a master copy of a book, video or other media on our balance sheet. As of April 24, 2004, we had $11.9 million in net development costs on our balance sheet. A majority of these costs are associated with our Children's Publishing business. The capitalized development costs are subsequently amortized into cost of revenues over the expected sales realization cycle of the products, which is typically five years. During fiscal 2004, we amortized to expense $1.7 million related to development costs. If the annual prepublication amortization varied by one percentage point, the consolidated amortization expense for fiscal 2004 would have changed by less than $0.1 million. We continue to monitor the expected sales realization cycle for each product, and will adjust the remaining expected life of the development costs or recognize an impairment, if warranted.

Goodwill and Intangible Assets

At April 24, 2004, goodwill and intangible assets represented approximately 62% of our total assets. Determining the recoverability of these assets requires considerable judgment and is evaluated on an annual basis or more frequently if events or circumstances indicate that the assets may be impaired. As it relates to goodwill and indefinite life intangible assets, we apply the impairment rules in accordance with SFAS No. 142. As required by SFAS No. 142, the recoverability of these assets is subject to a fair value assessment which includes several significant judgments regarding financial projections and comparable market values. As it relates to finite life intangible assets, we apply the impairment rules as

required by SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets" which also requires significant judgment and assumptions related to the expected future cash flows attributable to the intangible asset. The impact of modifying any of these assumptions can have a significant impact on the estimate of fair value and, thus, the estimated recoverability, or impairment, if any, of the asset.

Item 7A. Quantitative and Qualitative Disclosure About Market Risk

Our financial instruments include cash and cash equivalents, accounts receivable, accounts payable, accrued liabilities and debt. Market risks relating to our operations result primarily from changes in interest rates. Our borrowings under our credit facility and our discount expense related to our accounts receivable securitization are primarily dependent upon LIBOR rates. Assuming no change in our financial structure, if variable interest rates were to average 100 basis points higher during fiscal 2004, pre-tax earnings would decrease by approximately $0.9 million. This amount was determined by considering a hypothetical 100 basis point increase in interest rates on average variable-rate debt outstanding and the average advanced under the receivable securitization during fiscal 2004. The estimated fair value of long-term debt approximated its carrying value at April 24, 2004, with the exception of our convertible debt which at April 24, 2004 had a carrying value of $282.5 million and a fair market value of $331.0 million.

To manage interest rate risk on the variable rate borrowings under our credit facility, we have historically entered into interest rate swap agreements. These interest rate swap agreements had the effect of locking in, for a specified period, the base interest rate we paid on a notional principal amount established in the swaps. As a result, while these hedging arrangements were structured to reduce our exposure to interest rate increases, it also limits the benefit we might otherwise have received from any interest rate decreases. The swaps were typically cash settled monthly, with interest expense adjusted for amounts paid or received. The swap agreements had the effect of increasing interest expense by approximately $0.9 million in fiscal 2002. No swap agreements were in place during fiscal 2004 or 2003. We do not hold or issue derivative financial instruments for trading purposes.

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Item 8. Financial Statements and Supplementary Data

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholders of
School Specialty, Inc.:

We have audited the accompanying consolidated balance sheets of School Specialty, Inc., and subsidiaries (the "Company") as of April 24, 2004 and April 26, 2003, and the related consolidated statements of operations, shareholders' equity, and cash flows for each of the three years in the period ended April 24, 2004. Our audits also included the financial statement schedule listed in the Index at Item 15(a)(2). These financial statements and financial statement schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and financial statement schedule based on our audits.

We conducted our audits in accordance with standards of the Public Company Accounting Oversight Board (United States). 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, such consolidated financial statements present fairly, in all material respects, the financial position of School Specialty, Inc. and subsidiaries as of April 24, 2004 and April 26, 2003, and the results of their operations and their cash flows for each of the three years in the period ended April 24, 2004, in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, such financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

/s/ DELOITTE & TOUCHE LLP

Milwaukee, Wisconsin
June 29, 2004

FINANCIAL STATEMENTS

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

	April 24, 2004	April 26, 2003
ASSETS		
Current assets:		
Cash and cash equivalents	$ 2,369	$ 2,389
Accounts receivable, less allowance for doubtful accounts of $6,627 and $3,796, respectively	52,995	48,533
Inventories	139,786	106,756
Deferred catalog costs	15,578	17,445
Prepaid expenses and other current assets	12,491	8,891
Assets held for sale	—	1,100
Deferred taxes	5,757	4,324
Total current assets	228,976	189,438
Property, plant and equipment, net	65,294	63,969
Goodwill	462,039	430,672
Intangible assets, net	55,657	43,640
Other	20,641	8,616
Total assets	$ 832,607	$ 736,335
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Current maturities – long-term debt	$ 524	$ 512
Accounts payable	58,225	57,355
Accrued compensation	13,840	15,117
Deferred revenue	7,018	6,735
Other accrued liabilities	17,368	13,773
Total current liabilities	96,975	93,492
Long-term debt – less current maturities	314,104	292,844
Deferred taxes	42,553	28,546
Total liabilities	453,632	414,882
Shareholders' equity:		
Preferred stock, $0.001 par value per share, 1,000,000 shares authorized; none outstanding	—	—
Common Stock, $0.001 par value per share, 150,000,000 shares authorized and 19,069,987 and 18,435,066 shares issued and outstanding, respectively	19	18
Capital paid-in excess of par value	230,258	215,992
Accumulated other comprehensive income	5,607	3,149
Retained earnings	143,091	102,294
Total shareholders' equity	378,975	321,453
Total liabilities and shareholders' equity	$ 832,607	$ 736,335

See accompanying notes to consolidated financial statements.

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

	For the Fiscal Year Ended		
	April 24, 2004	April 26, 2003	April 27, 2002
Revenues	$907,503	$870,030	$767,387
Cost of revenues	532,824	512,167	473,407
Gross profit	374,679	357,863	293,980
Selling, general and administrative expenses	288,560	271,916	236,436
Operating income	86,119	85,947	57,544
Other (income) expense:			
Interest expense	18,351	18,043	17,321
Interest income	(67)	(42)	(42)
Other	1,123	1,909	3,965
Income before provision for income taxes	66,712	66,037	36,300
Provision for income taxes	25,915	26,447	14,521
Net income	$ 40,797	$ 39,590	$ 21,779
Weighted average shares outstanding:			
Basic	18,828	18,324	17,917
Diluted	24,125	23,378	18,633
Net income per share:			
Basic	$ 2.17	$ 2.16	$ 1.22
Diluted	$ 1.94	$ 1.94	$ 1.17

See accompanying notes to consolidated financial statements.

SCHOOL SPECIALTY, INC.
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
FOR THE FISCAL YEARS ENDED APRIL 24, 2004, APRIL 26, 2003 AND APRIL 27, 2002
(In Thousands)

	Common Stock		Capital Paid-in Excess of Par Value	Accumulated Other Comprehensive Income (Loss)	Retained Earnings	Total Shareholders' Equity	Total Comprehensive Income (Loss)
	Shares	Dollars					
Balance at April 28, 2001	17,587	$ 18	$ 198,119	$ 190	$ 40,925	$ 239,252	
Issuance of common stock in conjunction with stock option exercises	339	—	5,869	—	—	5,869	
Tax benefit on option exercises	—	—	1,365	—	—	1,365	
Issuance of common stock in conjunction with acquisition	120	—	2,700	—	—	2,700	
Foreign currency translation adjustment	—	—	—	395	—	395	$ 395
Reclassification adjustment for losses on available-for-sale securities included in net income, net of tax	—	—	—	(190)	—	(190)	(190)
Net income	—	—	—	—	21,779	21,779	21,779
Total comprehensive income							$ 21,984
Balance at April 27, 2002	18,046	18	208,053	395	62,704	271,170	
Issuance of common stock in conjunction with stock option exercises	389	—	6,445	—	—	6,445	
Tax benefit on option exercises	—	—	1,494	—	—	1,494	
Foreign currency translation adjustment	—	—	—	2,754	—	2,754	$ 2,754
Net income	—	—	—	—	39,590	39,590	39,590
Total comprehensive income							$ 42,344
Balance at April 26, 2003	18,435	18	215,992	3,149	102,294	321,453	
Issuance of common stock in conjunction with stock option exercises	635	1	11,710	—	—	11,711	
Tax benefit on option exercises	—	—	2,556	—	—	2,556	
Foreign currency translation adjustment	—	—	—	2,458	—	2,458	$ 2,458
Net income	—	—	—	—	40,797	40,797	40,797
Total comprehensive income							$ 43,255
Balance at April 24, 2004	19,070	$ 19	$ 230,258	$ 5,607	$ 143,091	$ 378,975	

See accompanying notes to consolidated financial statements.

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

	For the Fiscal Year Ended		
	April 24, 2004	April 26, 2003	April 27, 2002
Cash flows from operating activities:			
Net income	$ 40,797	$ 39,590	$ 21,779
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization expense	17,905	15,521	11,198
Amortization of development costs	1,717	465	325
Amortization of debt fees and other	2,677	3,027	2,410
Deferred taxes	8,647	8,222	8,335
(Gain) loss on disposal of property, equipment and other	(15)	1,122	1,397
Net borrowings (repayments) under accounts receivable securitization facility	4,000	(4,000)	—
Loss on sale of available-for-sale securities	—	—	329
Loss on impairment of investment	—	—	1,657
Changes in current assets and liabilities (net of assets acquired and liabilities assumed in business combinations):			
Accounts receivable	4,601	2,101	12,472
Inventories	(5,068)	2,735	5,473
Deferred catalog costs	1,867	(3,855)	3,006
Prepaid expenses and other assets	(2,828)	7,332	4,398
Accounts payable	(5,562)	2,845	(12,024)
Accrued liabilities	218	(12,139)	15,461
Net cash provided by operating activities	68,956	62,966	76,216
Cash flows from investing activities:			
Cash paid in acquisitions, net of cash acquired	(89,273)	(55,843)	(162,248)
Additions to property, plant and equipment	(8,974)	(11,305)	(12,110)
Investment in development costs	(4,726)	(940)	(603)
Proceeds from business dispositions, net of cash disposed	4,026	—	1,500
Proceeds from disposal of property and equipment	1,135	655	1,335
Proceeds from sale of available-for-sale securities	—	—	9,572
Proceeds from note receivable	—	—	1,115
Net cash used in investing activities	(97,812)	(67,433)	(161,439)
Cash flows from financing activities:			
Proceeds from borrowings	349,900	247,200	259,800
Repayment of debt and capital leases	(461,730)	(251,339)	(324,112)
Proceeds from convertible debt offering	133,000	—	149,500
Payment of debt fees and other	(4,045)	(1,573)	(5,399)
Proceeds from exercise of stock options	11,711	6,445	5,869
Net cash provided by financing activities	28,836	733	85,658
Net (decrease) increase in cash and cash equivalents	(20)	(3,734)	435
Cash and cash equivalents at beginning of period	2,389	6,123	5,688
Cash and cash equivalents at end of period	$ 2,369	$ 2,389	$ 6,123
Supplemental disclosures of cash flow information:			
Interest paid	$ 15,673	$ 16,382	$ 15,493
Income taxes paid	$ 18,248	$ 16,438	$ 2,533

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

The Company issued common stock and/or cash in connection with certain business combinations accounted for under the purchase method in the fiscal years ended April 24, 2004, April 26, 2003 and April 27, 2002. The fair values of the assets and liabilities of the acquired companies are presented as follows:

	For the Fiscal Year Ended		
	April 24, 2004	April 26, 2003	April 27, 2002
Accounts receivable	$13,526	$ 12,324	$ 6,835
Inventories	30,492	13,558	3,819
Current deferred tax assets	2,044	286	386
Prepaid expenses and other assets	9,337	3,011	1,135
Property, plant and equipment	6,770	1,088	7,202
Goodwill	28,242	36,550	135,342
Intangible assets	16,071	11,040	33,877
Short-term debt and capital lease obligations	(6)	(1,115)	(2,483)
Accounts payable	(6,903)	(7,413)	(624)
Accrued liabilities	(4,220)	(6,880)	(5,940)
Long-term debt and capital lease obligations	(96)	(10,334)	(342)
Long-term deferred tax liabilities	(5,971)	(488)	(13,147)
Net assets acquired	$89,286	$ 51,627	$166,060
The acquisitions were funded as follows:			
Cash paid, net of cash acquired (1)	$89,286	$ 51,627	$159,248
Note and other payable to selling shareholders	—	—	4,112
Common stock	—	—	2,700
Total	$89,286	$ 51,627	$166,060

(1) Fiscal 2004 cash paid in acquisitions, net of cash acquired, as reported within cash flows from investing activities includes net cash purchase price adjustments of $13 related to previous acquisitions. Fiscal 2003 cash paid in acquisitions, net of cash acquired, as reported within cash flows from investing activities includes the payment of $4,112 for a fiscal 2002 note and other payable to selling shareholders and purchase price adjustments of $104 related to immaterial acquisitions. Fiscal 2002 cash paid in acquisitions, net of cash acquired, as reported within cash flows from investing activities, includes the payment of $3,000 for a fiscal 2001 payable to selling shareholders.

See accompanying notes to consolidated financial statements.

SCHOOL SPECIALTY, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE FISCAL YEARS ENDED APRIL 24, 2004, APRIL 26, 2003 AND APRIL 27, 2002
(In Thousands, Except Per Share Amounts)

NOTE 1—ORGANIZATION AND BASIS OF PRESENTATION

School Specialty, Inc. (the "Company") is an education company, providing supplemental learning products primarily to the pre-kindergarten through twelfth grade market.

The accompanying consolidated financial statements and related notes to consolidated financial statements include the accounts of School Specialty, Inc., its subsidiaries and the companies acquired in business combinations from their respective dates of acquisition. All significant inter-company accounts and transactions have been eliminated.

NOTE 2—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Use of Estimates

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

Definition of Fiscal Year

The Company's fiscal year ends on the last Saturday in April in each year. As used in these consolidated financial statements and related notes to consolidated financial statements, "fiscal 2004," "fiscal 2003," and "fiscal 2002" refer to the Company's fiscal years ended April 24, 2004, April 26, 2003, and April 27, 2002, respectively. All fiscal years reported represent 52 weeks.

Cash and Cash Equivalents

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

Inventories

Inventories, which consist primarily of products held for sale, are stated at the lower of cost or market, with cost generally determined on a weighted-average basis.

Property, Plant and Equipment

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

SCHOOL SPECIALTY, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE FISCAL YEARS ENDED APRIL 24, 2004, APRIL 26, 2003 AND APRIL 27, 2002
(In Thousands, Except Per Share Amounts)

Goodwill and Other Intangible Assets

Goodwill represents the excess of cost over the fair value of net assets acquired in business combinations accounted for under the purchase method. Certain intangible assets including a perpetual license agreement and various trademarks and tradenames are estimated to have indefinite lives and are not subject to amortization. Under SFAS No. 142, "Goodwill and Other Intangible Assets," goodwill and indefinite-lived intangible assets are not subject to amortization but rather must be tested for impairment annually or more frequently if events or circumstances indicate they might be impaired. The Company performs the annual impairment test during the first quarter of each fiscal year. Amortizable intangible assets include customer relationships, non-compete agreements, trademarks and tradenames and order backlog and are being amortized over their estimated useful lives ranging from less than one to thirty years.

Development Costs

Development costs represent external and internal costs incurred in the development of a master copy of a book, video or other media. The Company capitalizes development costs and amortizes these costs into costs of revenues over their estimated useful lives in amounts proportionate to expected revenues. At April 24, 2004 and April 26, 2003, net development costs totaled $11,891 and $2,663, respectively, and are included as a component of other assets in the consolidated balance sheets.

Impairment of Long-Lived Assets

As required by Statement of Financial Accounting Standards ("SFAS") No. 144 "Accounting for the Impairment or Disposal of Long-Lived Assets," the Company reviews property, plant and equipment, definite-lived intangible assets and development costs for impairment if events or circumstances indicate an asset might be impaired. The Company assesses impairment based on undiscounted cash flows and records any impairment based on estimated fair value determined using discounted cash flows.

Investments

The Company held a preferred stock investment in a company which had been accounted for under the cost method. Under this method, the Company's investment was stated at cost and was periodically evaluated for impairment. As a result of this evaluation, the Company wrote-off the investment due to the deteriorating financial condition of the company, reporting an impairment charge of $1,657 during fiscal 2002, which is included in other expense in the consolidated statements of operations.

The Company had an investment in the common stock of Riverdeep Group plc, which was classified and accounted for as an available-for-sale security under SFAS No. 115, "Accounting for Certain Investments in Debt and Equity Securities." Unrealized holding gains, net of tax, related to this investment were reported as other comprehensive income, a component of shareholders' equity. During fiscal 2002, the investment was sold, resulting in a realized pre-tax loss of $329.

Fair Value of Financial Instruments

The carrying amounts of the Company's financial instruments including cash and cash equivalents, accounts receivable, including retained interests in securitized receivables, accounts payable, and accrued liabilities approximate fair value given the short maturity of these instruments. The estimated fair value of the credit facility approximated its carrying value at April 24, 2004 and April 26, 2003 given the variable interest

rates included with this facility. The Company's convertible debt had a carrying value of $282,500 and a fair market value of $330,981 at April 24, 2004, and a carrying value of $149,500 and a fair market value of $142,212 at April 26, 2003, as determined using the closing bid prices as reported on the National Association of Securities Dealers, Inc.'s (NASD's) Portal Market on April 23, 2004 and April 25, 2003, respectively. The Company's sale-leaseback obligations had a carrying value of $17,417 and $17,729 and a fair market value of $18,289 and $19,120 at April 24, 2004 and April 26, 2003, respectively, as determined using estimated interest rates available at April 24, 2004 and April 26, 2003 for similar long-term borrowings.

Income Taxes

Income taxes have been computed utilizing the asset and liability approach which requires the recognition of deferred tax assets and liabilities for the tax consequences of temporary differences by applying enacted statutory tax rates applicable to future years to differences between the financial statement carrying amounts and the tax basis of existing assets and liabilities. Valuation allowances are provided when it is anticipated that some or all of a deferred tax asset is not likely to be realized.

Revenue Recognition

Revenue, net of estimated returns and allowances, is recognized upon the shipment of products or upon the completion of services provided to customers, which corresponds to the time when risk of ownership transfers, the selling price is fixed, the customer is obligated to pay and the Company has no significant remaining obligations. Cash received in advance from customers is deferred on our balance sheet as a current liability and recognized upon the shipment of products or upon the completion of services provided to customers.

Concentration of Credit Risks

The Company grants credit to customers in the ordinary course of business. The majority of the Company's customers are school districts and schools. Concentration of credit risk with respect to trade receivables is limited due to the significant number of customers and their geographic dispersion. During fiscal 2004, 2003 and 2002, no customer represented more than 10% of revenues or accounts receivable.

Vendor Rebates

Vendor rebates relating to product purchases are recognized as a reduction in cost of revenues over the estimated period the related products are sold.

Deferred Catalog Costs

Deferred catalog costs represent costs which have been paid to produce Company catalogs, net of vendor cooperative advertising payments, which will be used in and benefit future periods. Deferred catalog costs are amortized in amounts proportionate to expected revenues over the life of the catalog, which is one year or less. Amortization expense related to deferred catalog costs is included in the consolidated statements of operations as a component of selling, general and administrative expenses. Such amortization expense for fiscal years 2004, 2003 and 2002 was $33,084, $28,686 and $28,658, respectively.

Shipping and Handling Costs

The Company accounts for shipping and handling costs billed to customers as a component of revenues. The Company accounts for shipping and handling costs incurred as a cost of revenues for

SCHOOL SPECIALTY, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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shipments made directly from vendors to customers. For shipments made from the Company's warehouses, the Company accounts for shipping and handling costs incurred as a selling, general and administrative expense. The amount of shipping and handling costs included in selling, general and administrative expenses for fiscal years 2004, 2003 and 2002 was $40,364, $35,958 and $29,909, respectively.

Foreign Currency Translation

The financial statements of foreign subsidiaries have been translated into U.S. dollars in accordance with SFAS No. 52, "Foreign Currency Translation." All balance sheet accounts have been translated using the exchange rates in effect at the balance sheet date. Amounts in the statements of operations have been translated using the average exchange rate for the year. Resulting translation adjustments are included in foreign currency translation adjustment within other comprehensive income.

Stock-Based Compensation

The Company accounts for its employee stock option plans under the recognition and measurement principles of Accounting Principles Board ("APB") Opinion No. 25, "Accounting for Stock Issued to Employees," and related Interpretations. Under APB Opinion No. 25, no stock-based compensation is reflected in net income, as all options granted under the plans had a fixed exercise price equal to the market value of the underlying common stock on the date of grant and the related number of shares granted is fixed at that point in time. Had compensation expense related to the Company's stock option grants to employees and directors been recognized based upon the fair value of the stock options on the grant date under the methodology prescribed by SFAS No. 123, "Accounting for Stock Based Compensation," the Company's net income and net income per share would have been impacted as indicated in the following table:

	Fiscal 2004	Fiscal 2003	Fiscal 2002
Net income, as reported	$40,797	$39,590	$21,779
Deduct: Total stock-based employee compensation expense determined under fair value based method for all awards, net of related tax effects	(2,682)	(2,632)	(2,856)
Pro forma net income	$38,115	$36,958	$18,923
EPS:			
As reported:			
Basic	$ 2.17	$ 2.16	$ 1.22
Diluted	$ 1.94	$ 1.94	$ 1.17
Pro forma:			
Basic	$ 2.02	$ 2.02	$ 1.06
Diluted	$ 1.82	$ 1.83	$ 1.02

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

	Fiscal 2004	Fiscal 2003	Fiscal 2002
Expected life of option	6.6 years	7 years	7 years
Risk free interest rate	3.19%	3.86%	4.85%
Expected volatility of stock	51.78%	55.04%	58.38%

Recent Accounting Pronouncements

In January 2003, the FASB issued FIN 46, "Consolidation of Variable Interest Entities – An Interpretation of ARB No. 51." FIN 46 requires companies with variable interests in variable interest entities to evaluate whether they must consolidate these entities subject to the provisions included in FIN 46. The consolidation requirements of FIN 46 apply immediately to variable interest entities created after January 31, 2003. The consolidation requirements apply to entities created prior to January 31, 2003 in the first fiscal year or interim period beginning after June 15, 2003. The Company adopted the provisions of FIN 46 during fiscal 2003 by evaluating the impact of FIN 46 as it related to the Company's accounts receivable securitization. The adoption of FIN 46 did not have a material impact on the Company's financial position, results of operations or cash flows. In December 2003, the FASB issued a revised FIN 46 (FIN 46R), "Consolidation of Variable Interest Entities – An Interpretation of ARB No. 51," which revised certain provisions of FIN 46. The adoption of FIN 46R during fiscal 2004 did not have a material impact on the Company's financial position, results of operations or cash flows.

In May 2003, the FASB issued SFAS No. 150, "Accounting for Certain Financial Instruments with Characteristics of Both Liabilities and Equity." This statement establishes standards for how an issuer classifies and measures certain financial instruments with characteristics of both liabilities and equity. This statement is effective for financial instruments entered into or modified after May 31, 2003, and otherwise is effective at the beginning of the first interim period beginning after June 15, 2003. The adoption of this standard did not have a material impact on the Company's financial position, results of operations or cash flows.

Reclassifications

Certain amounts previously reported have been reclassified to conform with the current year presentation.

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NOTE 3—GOODWILL AND OTHER INTANGIBLE ASSETS

The following table presents details of the Company's intangible assets, excluding goodwill:

April 24, 2004	Gross Value	Accumulated Amortization	Net Book Value
Amortizable intangible assets:			
Customer relationships	$37,101	$ (4,189)	$32,912
Non-compete agreements	6,956	(2,090)	4,866
Tradenames and trademarks	2,722	(58)	2,664
Order backlog and other	558	(165)	393
Total amortizable intangible assets	47,337	(6,502)	40,835
Non-amortizable intangible assets:			
Perpetual license agreement	12,700	—	12,700
Tradenames and trademarks	2,122	—	2,122
Total non-amortizable intangible assets	14,822	—	14,822
Total intangible assets	$62,159	$ (6,502)	$55,657

April 26, 2003	Gross Value	Accumulated Amortization	Net Book Value
Amortizable intangible assets:			
Customer relationships	$25,550	$ (1,951)	$23,599
Non-compete agreements	5,916	(1,408)	4,508
Order backlog and other	759	(238)	521
Total amortizable intangible assets	32,225	(3,597)	28,628
Non-amortizable intangible assets:			
Perpetual license agreement	12,700	—	12,700
Tradenames and trademarks	2,312	—	2,312
Total non-amortizable intangible assets	15,012	—	15,012
Total intangible assets	$47,237	$ (3,597)	$43,640

Intangible asset amortization expense included in selling, general and administrative expenses for fiscal years 2004, 2003 and 2002 was $3,635, $2,900, and $1,131, respectively.

Estimated intangible asset amortization expense for each of the five succeeding fiscal years is estimated to be:

Year	Amount
2005	$3,412
2006	3,363
2007	3,260
2008	3,104
2009	2,984

The following information presents changes to goodwill during the period beginning April 28, 2002 through April 24, 2004:

Segment	Balance at April 27, 2002	Fiscal 2003 Acquisitions	Adjustments	Balance at April 26, 2003	Fiscal 2004 Acquisitions	Adjustments	Balance at April 24, 2004
Traditional	$ 159,916	$ 4,930	$ (14)	$ 164,832	$ —	$ 311	$ 165,143
Specialty	231,030	31,620	3,190	265,840	28,242	2,814	296,896
Total	$ 390,946	$ 36,550	$ 3,176	$ 430,672	$ 28,242	$ 3,125	$ 462,039

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The Specialty segment adjustments during fiscal 2003 of $3,190 are primarily associated with Premier Agendas. Specifically, $447 is for exit costs, consisting of employee termination and facility closure costs related to the closure of regional sales offices, which was substantially completed during fiscal 2003. Additional adjustments of $2,611 are primarily from foreign currency translation. In addition to the Premier Agenda adjustments, $132 in adjustments relate to the Premier Science acquisition, with $100 in adjustments representing additional purchase price related to an earn-out provision, which was paid in fiscal 2003, and $32 of final purchase accounting adjustments. The Traditional segment adjustments during fiscal 2004 of $311 primarily relate to final purchase accounting adjustments for J.L. Hammett. The Specialty segment adjustments during fiscal 2004 of $2,814 are comprised of $2,138 related to foreign currency translation, $491 related to final purchase accounting adjustments for ABC School Supply and $185 related to other final purchase price and purchase accounting adjustments.

NOTE 4—BUSINESS COMBINATIONS

Fiscal 2004

On May 30, 2003, the Company acquired the stock of Select Agendas, a Canadian-based company, for an aggregate purchase price, net of cash acquired, of $17,148. This transaction was funded in cash through borrowings under the Company's credit facility. The business operates from Montreal, Quebec and primarily markets student agenda products to customers in the United States and Canada. The acquisition is expected to create synergies with our existing agenda business. The preliminary purchase price allocation, which is subject to change, resulted in goodwill of $13,147, which is expected to be fully deductible for tax purposes. In addition, acquired intangible assets totaled $3,494, consisting primarily of order backlog, a tradename and customer relationships. The results of this acquisition have been included in the Specialty segment results since the date of acquisition. The Company continues to evaluate integration opportunities with this acquired business, which may result in purchase accounting adjustments during fiscal 2005.

On January 16, 2004, the Company acquired the stock of Califone Holding Inc., the parent of Califone International, Inc. (collectively "Califone") for an aggregate purchase price, net of cash acquired, of $26,454. This transaction was funded in cash through borrowings under the Company's credit facility. The business operates from Chatsworth, California and is the leading developer of quality sound presentation systems including state of the art multimedia, audio-visual and presentation equipment for schools and industry. The acquisition adds proprietary sound presentation systems to the Company's resource offerings. The preliminary purchase price allocation, which is subject to change, resulted in goodwill of $15,095, most of which is not deductible for tax purposes. The results of this acquisition have been included in the Specialty segment since the date of acquisition. The Company continues to evaluate integration opportunities with this acquired business, which may result in purchase accounting adjustments during fiscal 2005.

The Company engaged a third-party to perform a valuation of Califone's intangible assets. Details of Califone's acquired intangible assets are as follows:

Acquired Intangibles	Allocated Value	Amortization Life
Customer Relationships	$ 9,800	17 years
Tradename	2,100	30 years
Non-compete agreements	650	3.5 years
Order backlog	27	6 months
Total acquired intangibles	$12,577	

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On January 30, 2004, the Company acquired select assets of the Children's Publishing business of McGraw-Hill Education, a division of The McGraw-Hill Companies, for an aggregate purchase price of $45,684. This transaction was funded with cash on hand and from borrowings under the Company's credit facility. The business operates from Columbus, Ohio, and develops, produces, markets and distributes supplemental education materials. The acquisition adds proprietary education titles to the Company's resource offerings, and also complements our Childcraft division's publishing efforts. The preliminary purchase price allocation, which is subject to change, resulted in no goodwill or intangible assets. The results of this acquisition have been included in the Specialty segment since the date of acquisition. The Company continues to evaluate integration opportunities with this acquired business, which may result in purchase accounting adjustments during fiscal 2005.

Fiscal 2003

On August 14, 2002 the Company acquired ABC School Supply and related affiliates ("ABC") for an aggregate purchase price, net of cash acquired, of $30,111, which was funded in cash through borrowings under the Company's credit facility. As part of the acquisition, the Company also assumed $11,449 of debt. ABC, a producer and marketer of pre-K through eighth grade educational products, is headquartered in Duluth, Georgia. The acquisition has created synergies with our early childhood and key accounts group. The purchase price allocation resulted in goodwill of $31,505, which is not deductible for tax purposes. The results of this acquisition and the related goodwill have been included in both the Traditional and Specialty segment results since the date of acquisition.

During fiscal 2003 and fiscal 2004, the Company closed ABC's manufacturing facility in Lineville, Alabama, closed ABC's distribution center in Duluth, Georgia, and consolidated various administrative functions with its Childcraft division and Traditional segment. In accordance with this plan, the Company recorded $1,004 in liabilities for severance and termination costs to cover approximately 150 terminated employees and $1,658 in liabilities for facility closure and consolidation costs.

The Company engaged a third-party to perform a valuation of ABC's intangible assets. Details of ABC's acquired intangible assets are as follows:

Acquired Intangibles	Allocated Value	Amortization Life
Amortizable intangibles:		
Customer relationships	$ 4,630	15 years
Order backlog	140	6 months
Total	4,770	14.6 years
Non-amortizable intangibles:		
Tradenames	1,420	N/A
Total acquired intangibles	$ 6,190	N/A

On August 30, 2002, the Company acquired the remaining wholesale operations of J.L. Hammett ("Hammett") for an aggregate purchase price of $13,503, which was funded in cash through borrowings under the Company's credit facility. The business operated from Braintree, Massachusetts and Romulus, New York, and primarily marketed pre-K through twelfth grade educational products to charter schools and national child care centers. The acquisition has created synergies with our key accounts group in the Traditional segment. The purchase price allocation resulted in goodwill of $1,749 which is expected to be fully deductible for tax purposes, and intangible assets of $2,685, consisting primarily of non-compete agreements. The results of this acquisition and the related goodwill have been included in the Traditional segment results since the date of acquisition.

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On February 26, 2003, the Company acquired the video division of Sunburst Technology Corporation for an aggregate purchase price of $7,750, which was funded in cash through borrowings under the Company's credit facility. The business operated from Pleasantville, New York and primarily marketed and developed proprietary videos covering character education and health and guidance curriculums for middle and high schools. The acquisition has created synergies with our Teacher's Video division. The purchase price allocation resulted in goodwill of $3,994 which is expected to be fully deductible for tax purposes, and intangible assets of $1,898, consisting primarily of customer relationships. The results of this acquisition and the related goodwill have been included in the Specialty segment results since the date of acquisition.

Fiscal 2002

On December 21, 2001, the Company acquired all of the issued and outstanding shares of capital stock of Premier Agendas, Inc. and Premier School Agendas Ltd. (together "Premier Agendas"). Premier Agendas, headquartered in Bellingham, Washington, is the largest provider of academic agendas in the United States and Canada. The aggregate purchase price, net of cash acquired, of $155,931, included a $4,012 six-month note payable to the former owners of Premier Agendas. The note was paid in full in fiscal 2003. The balance of the purchase price was funded primarily through borrowings under the Company's existing credit facility. The Company has integrated its existing student agenda brands Time Tracker and Hammond & Stephens into the Premier Agendas business. The results of this acquisition have been included in the Specialty segment results since the date of acquisition.

The total purchase price was allocated to the tangible and intangible assets and liabilities acquired based upon their respective fair values as of the closing date of the acquisition. The total purchase price resulted in goodwill of $128,059, which is not deductible for income tax purposes. An allocation of the purchase price has been made to major categories of assets and liabilities as follows:

Current assets	$ 11,166
Property, plant and equipment and other	6,684
Identifiable intangible assets	32,077
Goodwill	128,059
Liabilities assumed	(22,055)
	$155,931

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The Company engaged a third-party to perform a valuation of Premier Agendas' intangible assets. Details of Premier Agendas' acquired identifiable intangible assets are as follows:

Acquired Intangibles	Allocated Value	Amortization Life
Amortizable intangibles:		
Customer relationships	$18,900	15 years
Order backlog	400	1 year
Non-compete agreements	77	2 years
Total	19,377	14.7 years
Non-amortizable intangibles:		
Perpetual license agreement	12,700	N/A
Total acquired intangibles	$32,077	N/A

Also during fiscal 2002, the Company acquired three other businesses, accounted for under the purchase method of accounting, for a total purchase price, net of cash acquired, of $9,666 including $300 paid for non-compete agreements. The following transactions were paid for with cash and 120 shares of School Specialty, Inc. common stock:

- April 2002 – Certain assets of the K-12 wholesale business of Bradburn School Supply, Inc., a marketer of supplemental educational supplies which have been integrated into the Greenville, Wisconsin facility. Results are included in the Traditional segment since the date of acquisition.
- October 2001 – Premier Science, a start-up science curriculum company which is operated from the Mansfield, Ohio facility. Results are included in the Specialty segment since the date of acquisition.
- May 2001 – Envision, Inc., based in Grand Junction, Colorado, a designer, producer and marketer of student agenda books. Results are included in the Specialty segment since the date of acquisition. The purchase price included 120 shares of School Specialty, Inc. common stock.

The acquisitions resulted in goodwill of approximately $7,010, which is fully deductible for tax purposes. The resulting goodwill from the Bradburn acquisition of $747 is included in the Traditional segment, and the goodwill from the Premier Science and Envision acquisitions of $6,263 is included in the Specialty segment.

The following information presents the unaudited pro forma results of operations of the Company for fiscal 2004 and 2003, and includes the Company's consolidated results of operations and the results of the companies acquired during fiscal 2004 and fiscal 2003 as if all such purchase acquisitions had been made at the beginning of fiscal 2003. The results presented below include certain pro forma adjustments to reflect the amortization of certain amortizable intangible assets (which exclude acquired backlog of $757 given that the amortization period is less than one year), adjustments to interest expense, and the inclusion of an income tax provision on all earnings:

	Fiscal 2004	Fiscal 2003
Revenues	$967,368	$997,807
Net income	39,241	35,184
Net income per share:		
Basic	$ 2.08	$ 1.92
Diluted	$ 1.87	$ 1.75

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The pro forma results of operations have been prepared using unaudited historical results of acquired companies. These 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 2003 or the results that may occur in the future.

NOTE 5—BUSINESS DISPOSITION

On February 29, 2004, the Company sold the stock of Living & Learning, Ltd., a division based in the United Kingdom of the Children's Publishing business, which was acquired on January 30, 2004, for a preliminary sale price of $4,229. The Company received cash proceeds of $4,026 during fiscal 2004, and the remaining balance due of $203 will be received during fiscal 2005.

NOTE 6—PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment consist of the following:

	April 24, 2004	April 26, 2003
Land	$ 502	$ 502
Projects in progress	4,005	2,375
Buildings and leasehold improvements	28,690	27,291
Furniture, fixtures, and other	50,221	45,159
Machinery and warehouse equipment	29,217	24,144
Total property, plant and equipment	112,635	99,471
Less: Accumulated depreciation	(47,341)	(35,502)
Net property, plant and equipment	$ 65,294	$ 63,969

Depreciation expense for fiscal years 2004, 2003, and 2002 was $14,079, $12,621 and $10,067, respectively.

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NOTE 7—DEBT

Long-Term Debt

Long-term debt consists of the following:

	April 24, 2004	April 26, 2003
Credit facility	$ 14,400	$125,700
Convertible debt	282,500	149,500
Sale-leaseback obligations	17,417	17,729
Capital lease obligations	311	427
Total debt	314,628	293,356
Less: Current maturities	(524)	(512)
Total long-term debt	$314,104	$292,844

On September 30, 1998, the Company entered into a five year secured $350,000 credit facility (the “credit facility”) with a syndicate of financial institutions, led by Bank of America, N.A. as Agent, consisting of a $250,000 revolving loan and a $100,000 term loan. Interest accrued at a rate of, at the Company’s option, either LIBOR plus an applicable margin of up to 2.25% or the lender’s base rate plus an applicable margin of up to 1.00%. The Company also paid a fee of up to 0.5% on the unborrowed amount under the revolving loan. On April 11, 2003, the Company amended the credit facility. The amended credit facility matures on April 11, 2006 and provides for a $250,000 revolving loan. Interest accrues at a rate of, at the Company’s option, either LIBOR plus an applicable margin of up to 2.75%, or the lender’s base rate plus an applicable margin of up to 1.50%. The Company also pays a commitment fee of up to 0.5% on unborrowed funds.

The credit facility is secured by substantially all of the assets of the Company and contains certain financial covenants. The Company was in compliance with these covenants at April 24, 2004. The effective interest rate under the credit facility for fiscal 2004 was 7.01%, which includes amortization of the loan origination fee of $542 and commitment fee on unborrowed funds of $942. The effective interest rate under the credit facility for fiscal 2003 was 5.22%, which includes amortization of the loan origination fee of $1,207 and commitment fee on unborrowed funds of $621.

On July 30, 2001, the Company sold an aggregate principal amount of $130,000 of 6.0% convertible subordinated notes of the Company that are due in full on August 1, 2008. On August 2, 2001, the initial purchasers of the notes exercised their option to purchase additional notes in full and purchased an additional $19,500 aggregate principal amount of the notes. The notes are convertible at any time prior to maturity into shares of School Specialty, Inc. common stock at a conversion price of $32.29 per share and accrue interest payable semi-annually. There are no scheduled principal payments due prior to maturity. The Company used the total net proceeds from the offering of $144,590 to repay a portion of the debt outstanding under the credit facility. The $149,500, 6.0% convertible subordinated notes have been included in the Company’s diluted earnings per share calculations in fiscal 2004 and fiscal 2003, but have been excluded from the fiscal 2002 diluted earnings per share calculations because it was anti-dilutive.

On July 18, 2003, the Company sold an aggregate principal amount of $110,000 of convertible subordinated notes due August 1, 2023. On July 30, 2003, the initial purchasers of the notes exercised their option to purchase additional notes and purchased an additional $23,000 of these notes. The notes carry an annual interest rate of 3.75% until August 1, 2010, at which time the notes will cease bearing interest and the original principal amount of each note will commence increasing daily by the annual rate of 3.75%. Depending on the market price of the notes, the Company will make additional payments of interest

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commencing August 1, 2008. The notes, which provide for a contingent conversion feature, are convertible into shares of the Company's common stock at an initial conversion price of $40.00 per share if the closing price of the Company's common stock on The Nasdaq National Market exceeds $48.00 for a specified amount of time and under certain other circumstances. The Company used the total net proceeds from the offering of $128,999 to repay a portion of the debt outstanding under the Company's credit facility. The $133,000, 3.75% convertible subordinated notes have no current impact on the Company's diluted earnings per share calculations because conditions under which the notes may be converted have not been satisfied.

In November 2000, the Company entered into two sale-leaseback transactions which are accounted for as financings due to a technical default provision within the leases which could allow, under remote circumstances, for continuing ownership involvement by the Company in the two properties. Under the agreements, the Company recorded debt of $18,525, which has an effective interest rate of 8.97%, excluding amortization of loan fees. The leases expire in November 2020.

The Company entered into an interest rate swap agreement on December 13, 2000 (effective date of January 2, 2001), with The Bank of New York covering $50,000 of the outstanding borrowings under the credit facility. On April 29, 2001, the Company began accounting for the swap in accordance with SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities," which requires derivative instruments, such as this interest rate swap, to be recorded on the balance sheet as either an asset or a liability measured at fair value. The swap was designated as a cash flow hedge and was considered highly effective throughout its term. As a result of adopting SFAS No. 133, the Company recognized the fair value of the swap liability of $660 ($396 net of tax) with the net of tax offset to accumulated other comprehensive income (loss) on the date of adoption. Subsequent net of tax changes in the swap's fair value of $163 were recorded as a component of accumulated other comprehensive loss during fiscal 2002, all of which was reclassified to the fiscal 2002's consolidated statement of operations when the hedged item affected earnings. The swap agreement fixed the 30-day LIBOR interest rate at 6.07% per annum on the $50,000 notional amount and had a one-year term which expired on January 2, 2002.

As a result of the above swap agreements, interest expense was increased in fiscal 2002 by $931.

Maturities of Long-Term Debt

Maturities of long-term debt, including capital lease obligations, for subsequent fiscal years, are as follows:

2005	$ 524
2006	14,901
2007	532
2008	572
2009	150,109
Thereafter	147,990
Total maturities of long-term debt	$ 314,628

NOTE 8—SECURITIZATION OF ACCOUNTS RECEIVABLE

The Company and certain of its U.S. subsidiaries entered into an agreement (the "Receivables Facility") in November 2000 with a financial institution whereby it sells on a continuous basis an undivided interest in all eligible trade accounts receivable. Pursuant to the Receivables Facility, the Company formed New School, Inc. ("NSI"), a wholly-owned, special purpose, bankruptcy-remote subsidiary. As such, the

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assets of NSI will be available first and foremost to satisfy the claims of the creditors of NSI. NSI was formed for the sole purpose of buying and selling receivables generated by the Company and certain subsidiaries of the Company. Under the Receivables Facility, the Company and certain subsidiaries transfer without recourse all their accounts receivables to NSI. NSI, in turn, has sold and, subject to certain conditions, may from time to time sell an undivided interest in these receivables and is permitted to receive advances of up to $100,000 for the sale of such undivided interest. The Company receives a fee from the financial institution for billing and collection functions, which remain the responsibility of the Company that approximates fair value. The agreement, as amended, expires on November 18, 2004. The Company's retained interests in the receivables sold are recorded at fair value, which approximates cost, due to the short-term nature of the receivables sold.

This two-step transaction is accounted for as a sale of receivables under the provision of SFAS No. 140, "Accounting for Transfers and Servicing of Financial Assets and Extinguishment of Liabilities." There was $50,000 advanced under the Receivables Facility at April 24, 2004 and $46,000 advanced at April 26, 2003, accordingly, these amounts of accounts receivable have been removed from the consolidated balance sheets. Costs associated with the sale of receivables, primarily related to the discount and loss on sale, were $1,183, $1,839 and $1,985 and are included in other expenses in the consolidated statement of operations for fiscal years 2004, 2003 and 2002, respectively.

NOTE 9—INCOME TAXES

The provision for income taxes consists of:

	Fiscal 2004	Fiscal 2003	Fiscal 2002
Current income tax expense:			
Federal	$ 15,044	$16,453	$ 4,485
State	2,224	1,772	1,701
Total current income tax expense	17,268	18,225	6,186
Deferred income tax expense	8,647	8,222	8,335
Total provision for income taxes	$ 25,915	$26,447	$14,521

Deferred taxes are comprised of the following:

	April 24, 2004	April 26, 2003
Current deferred tax assets (liabilities):		
Inventory	$ 1,876	$ 1,796
Allowance for doubtful accounts	2,097	1,860
Net operating loss carryforward	264	510
Accrued liabilities	1,423	—
Accrued restructuring	97	158
Total current deferred tax assets	5,757	4,324
Long-term deferred tax assets (liabilities):		
Net operating loss carryforward	924	2,179
Property and equipment	(4,354)	(2,370)
Accrued liabilities	(1,696)	—
Intangible assets	(37,427)	(28,355)
Total long-term deferred tax liabilities	(42,553)	(28,546)
Net deferred tax liabilities	$(36,796)	$(24,222)

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At April 24, 2004, the Company had federal net operating loss carryforwards, which are subject to annual federal limitations on utilization pursuant to IRS Code Section 382, of $755, which expire during fiscal years 2020-2021. The Company has state net operating losses of approximately $21,046, which expire during fiscal years 2007-2023. The Company believes that the realization of the deferred tax assets is more likely than not, based on the expectation that the Company will generate the necessary taxable income in future periods and, accordingly, no valuation reserve has been provided.

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

	Fiscal 2004	Fiscal 2003	Fiscal 2002
U.S. federal statutory rate	35.0%	35.0%	35.0%
State income taxes, net of federal income tax benefit	3.5	3.7	4.5
Other	0.3	1.3	0.5
Effective income tax rate	38.8%	40.0%	40.0%

NOTE 10—OPERATING LEASE COMMITMENTS

The Company leases various types of warehouse and office facilities and equipment, under noncancelable lease agreements which expire at various dates. Future minimum lease payments under noncancelable operating leases for the Company's fiscal years are as follows:

2005	$10,385
2006	9,378
2007	7,825
2008	5,972
2009	3,856
Thereafter	41,012
Total minimum lease payments	$78,428

Rent expense for fiscal 2004, 2003 and 2002, was $9,964, $9,228 and $8,398, respectively.

NOTE 11—EMPLOYEE BENEFIT PLANS

On June 9, 1998, the Company implemented the School Specialty, Inc. 401(k) 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 virtually all full-time employees are eligible to participate in the 401(k) Plan after 90 days of service. In fiscal 2004, 2003, and 2002, the Company's matching contribution expense was $1,813, $1,743 and $670, respectively.

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NOTE 12—SHAREHOLDERS' EQUITY

EPS

Basic EPS excludes dilution and is computed by dividing income available to common shareholders by the weighted average number of common shares outstanding for the period. Diluted EPS reflects the potential dilution that could occur if securities to issue common stock were exercised. The following information presents the Company's computations of basic and diluted EPS for the periods presented in the consolidated statements of operations:

	Income (Numerator)	Shares (Denominator)	Per Share Amount
Fiscal 2004:			
Basic EPS	$ 40,797	18,828	$ 2.17
Effect of dilutive employee stock options	—	668	
Effect of dilutive $149,500, 6.0% convertible debt	5,891	4,629	
Diluted EPS	$ 46,688	24,125	$ 1.94
Fiscal 2003:			
Basic EPS	$ 39,590	18,324	$ 2.16
Effect of dilutive employee stock options	—	425	
Effect of dilutive $149,500, 6.0% convertible debt	5,797	4,629	
Diluted EPS	$ 45,387	23,378	$ 1.94
Fiscal 2002:			
Basic EPS	$ 21,779	17,917	$ 1.22
Effect of dilutive employee stock options	—	716	
Diluted EPS	$ 21,779	18,633	$ 1.17

The Company had additional employee stock options outstanding of 41, 529 and 128 during fiscal 2004, 2003 and 2002, respectively, that were not included in the computation of diluted EPS because they were anti-dilutive. Additionally, the shares issuable upon the conversion of the $149,500, 6.0% convertible debt to common stock have been excluded from the computation of fiscal 2002 diluted EPS because they were anti-dilutive. The $133,000, 3.75% convertible subordinated notes have no current impact on the Company's diluted EPS because conditions under which the notes may be converted have not been satisfied.

Employee Stock Plans

The Company has two stock-based employee compensation plans. On June 10, 1998, the Company's Board of Directors approved the School Specialty, Inc. 1998 Stock Incentive Plan (the "1998 Plan") and on August 27, 2002 the Company's Board of Directors approved the School Specialty, Inc. 2002 Stock Incentive Plan (the "2002 Plan"). Both plans have been approved by the Company's shareholders. The purpose of the 1998 Plan and the 2002 Plan is to provide directors, officers, key employees and consultants with additional incentives by increasing their ownership interests in the Company. Under the 1998 Plan, the maximum number of options available for grant is equal to 20% of the Company's outstanding common stock. Under the 2002 Plan, the maximum number of options available for grant is 1,500 shares.

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A summary of option transactions for fiscal 2002, fiscal 2003 and fiscal 2004 follows:

	Options Outstanding		Options Exercisable	
	Options	Weighted-Average Exercise Price	Options	Weighted-Average Exercise Price
Balance at April 28, 2001	3,066	$ 16.70	2,173	$ 16.47
Granted	338	24.67		
Exercised	(339)	17.47		
Canceled	(61)	17.97		
Balance at April 27, 2002	3,004	$ 17.48	2,192	$ 16.44
Granted	387	23.88		
Exercised	(389)	16.64		
Canceled	(55)	20.56		
Balance at April 26, 2003	2,947	$ 18.38	2,108	$ 16.76
Granted	386	30.84		
Exercised	(635)	18.49		
Canceled	(56)	22.74		
Balance at April 24, 2004	2,642	$ 20.08	1,809	$ 16.87

The per share weighted-average fair value of options granted during fiscal years 2004, 2003 and 2002 was $16.71, $14.20 and $15.53, respectively.

The following table summarizes information about stock options outstanding at April 24, 2004:

	Options Outstanding			Options Exercisable	
Range of Exercise Prices	Options	Weighted-Average Life	Weighted-Average Exercise Price	Options	Weighted-Average Exercise Price
$12.81 - $15.00	175	5.18	$ 14.18	175	$ 14.18
$15.50 - $15.50	1,157	4.13	15.50	1,157	15.50
$16.06 - $24.10	732	7.02	21.20	380	19.58
$24.36 - $59.84	578	8.52	29.64	97	27.40
	2,642	5.96	$ 20.08	1,809	$ 16.87

Options granted are generally exercisable beginning one year from the date of grant in cumulative yearly amounts of twenty-five percent of the shares granted and generally expire ten years from the date of grant. Options granted to directors and non-employee officers of the Company vest over a three year period, twenty percent after the first year, fifty percent (cumulative) after the second year and one-hundred percent (cumulative) after the third year.

On June 20, 2000, the Board of Directors approved the JuneBox.com, Inc. 2000 Equity Incentive Plan. JuneBox.com was a wholly owned subsidiary of School Specialty, Inc., and its stock was not publicly traded. No options were granted under this Plan during fiscal 2002 and 1,900 options were granted at fair market value at the date of grant during fiscal 2001. No options were exercised under this Plan. During fiscal 2002, JuneBox.com, Inc. was merged into School Specialty, Inc. The options

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outstanding at that time were replaced with School Specialty, Inc. options under the School Specialty, Inc. 1998 Stock Incentive Plan. The option holders were in the same economic position immediately before and after the replacement of JuneBox.com, Inc. options with School Specialty, Inc. options. The vesting provisions and option period of the original grants were not changed.

NOTE 13—SEGMENT INFORMATION

The Company's business activities are organized around two principal business segments, Traditional and Specialty, and operate principally in the United States, with limited Specialty segment operations in Canada. Both internal and external reporting conforms to this organizational structure, with no significant differences in accounting policies applied. The Company evaluates the performance of its segments and allocates resources to them based on revenue growth and profitability. While the segments serve a similar customer base, notable differences exist in products, gross margin and revenue growth rates. Products supplied within the Traditional segment include consumables (consisting of classroom supplies, instructional materials, educational games, art supplies and school forms), school furniture and indoor and outdoor equipment. Products supplied within the Specialty segment primarily target specific educational disciplines, such as art, industrial arts, physical education, sciences, and early childhood. This segment also supplies student academic planners, videos, DVDs, published educational materials and sound presentation equipment. The accounting policies of the segments are the same as those described in Summary of Significant Accounting Policies. All intercompany transactions have been eliminated.

The following table presents segment information:

	Fiscal 2004	Fiscal 2003	Fiscal 2002
Revenues:			
Traditional	$468,529	$472,459	$480,922
Specialty	438,974	397,571	286,465
Total	$907,503	$870,030	$767,387
Operating income and income before taxes:			
Traditional	$ 47,312	$ 48,193	$ 54,075
Specialty	62,552	57,852	22,576
Total	109,864	106,045	76,651
Corporate expenses	23,745	20,098	19,107
Operating income	86,119	85,947	57,544
Interest expense and other	19,407	19,910	21,244
Income before taxes	$ 66,712	$ 66,037	$ 36,300
Identifiable assets (at fiscal year end):			
Traditional	$260,232	$256,335	$249,926
Specialty	477,823	396,412	344,045
Total	738,055	652,747	593,971
Corporate assets (1)	94,552	83,588	79,671
Total	$832,607	$736,335	$673,642

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	Fiscal 2004	Fiscal 2003	Fiscal 2002
Depreciation and amortization of intangible assets and development costs:			
Traditional	$ 3,374	$ 3,883	$ 4,003
Specialty	11,118	7,761	4,207
Total	14,492	11,644	8,210
Corporate	5,130	4,342	3,313
Total	$ 19,622	$15,986	$11,523
Expenditures for property, plant and equipment and development costs:			
Traditional	$ 1,577	$ 1,285	$ 1,847
Specialty	7,467	4,512	2,802
Total	9,044	5,797	4,649
Corporate	4,656	6,448	8,064
Total	$ 13,700	$12,245	$12,713

(1) Includes assets of NSI.

NOTE 14—ASSETS HELD FOR SALE

During fiscal 2003, the Company decided to close and market its Lufkin, Texas warehouse as part of a plan to reduce the number of warehouses and to align capacity and efficiency to better serve customers and reduce overall warehousing costs. The Company recorded an impairment loss, as a component of selling, general and administrative expenses, of $1,046, related to the closure. The facility is classified as held for sale on the April 26, 2003 consolidated balance sheet. During fiscal 2004, the Company entered into an agreement to sell the assets held for sale related to the Lufkin, Texas warehouse for a net sales price of $1,108.

NOTE 15—QUARTERLY FINANCIAL DATA (UNAUDITED)

The following presents certain unaudited quarterly financial data for fiscal 2004 and fiscal 2003:

	Fiscal 2004 (1)				
	First	Second	Third	Fourth	Total
Revenues	$304,430	$335,066	$106,609	$161,938	$907,503
Gross profit	127,929	135,865	42,304	68,581	374,679
Operating income (loss)	49,058	53,998	(11,801)	(5,136)	86,119
Net income (loss)	27,142	29,881	(10,106)	(6,120)	40,797
Per share amounts:					
Basic	$ 1.46	$ 1.59	$ (0.53)	$ (0.32)	$ 2.17
Diluted	$ 1.21	$ 1.31	$ (0.53)	$ (0.32)	$ 1.94

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	Fiscal 2003 (1)				
	First	Second	Third	Fourth	Total
Revenues	$298,027	$317,399	$110,554	$144,050	$870,030
Gross profit	124,491	129,909	42,715	60,748	357,863
Operating income (loss)	44,938	53,707	(9,517)	(3,181)	85,947
Net income (loss)	23,956	29,030	(8,541)	(4,855)	39,590
Per share amounts:					
Basic	$ 1.32	$ 1.59	$ (0.46)	$ (0.26)	$ 2.16
Diluted	$ 1.08	$ 1.30	$ (0.46)	$ (0.26)	$ 1.94

(1) The Company acquired several businesses during fiscal 2004 and fiscal 2003. The results of these businesses have been included in the quarterly financial data since the dates of acquisition.

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

PART III

Item 9A. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

Based on an evaluation as of the end of the period covered by this annual report, the Company's principal executive officer and principal financial officer have concluded that the Company's disclosure controls and procedures (as defined in Rule 13a-15(e) under the Securities Exchange Act of 1934 (the "Exchange Act")) are effective for the purposes set forth in the definition of the Exchange Act rules.

Changes in Internal Controls

There have not been any changes in the Company's internal control over financial reporting identified in connection with the evaluation discussed above that occurred during the Company's last fiscal quarter that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

Item 10. Directors and Executive Officers of the Registrant

(a) *Executive Officers.* Reference is made to "Executive Officers of the Registrant" in Part I hereof.

(b) *Directors.* The information required by this Item is set forth in our Proxy Statement for the Annual Meeting of Shareholders to be held on August 24, 2004, under the caption "Proposal One: Election of Directors," which information is incorporated by reference herein.

(c) *Section 16 Compliance.* The information required by this Item is set forth in our Proxy Statement for the Annual Meeting of Shareholders to be held on August 24, 2004, under the caption "Section 16(a) Beneficial Ownership Reporting Compliance," which information is incorporated by reference herein.

(d) We have adopted a Code of Ethics that applies to our directors, officers and employees, including the principal executive officer, principal financial officer, principal accounting officer and controller. The Code of Ethics is posted on our internet website at www.schoolspecialty.com. We intend to satisfy the disclosure requirement under Item 10 of Form 8-K by posting such information on our internet website.

Item 11. Executive Compensation

The information required by this Item is set forth in our Proxy Statement for the Annual Meeting of Shareholders to be held on August 24, 2004, under the captions "Executive Compensation," "Employment Contracts and Related Matters," "Non-Employee Director Compensation," and "Compensation Committee Interlocks and Insider Participation," which information is incorporated by reference herein.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Shareholder Matters

The information required by this Item is set forth in our Proxy Statement for the Annual Meeting of Shareholders to be held on August 24, 2004, under the captions "Security Ownership of Management and Certain Beneficial Owners" and "Equity Compensation Plan Information," which information is incorporated by reference herein.

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Item 13. Certain Relationships and Related Transactions

Not applicable.

Item 14. Principal Accounting Fees and Services

The information required by this Item is set forth in our Proxy Statement for the Annual Meeting of Shareholders to be held on August 24, 2004, under the caption "Audit Committee Report," which information is incorporated herein by reference.

PART IV

Item 15. Exhibits, Financial Statement Schedules, and Reports on Form 8-K

(a)(1) Financial Statements (See Part II, Item 8).

Consolidated Financial Statements

Report of Independent Registered Public Accounting Firm

Consolidated Balance Sheets as of April 24, 2004 and April 26, 2003

Consolidated Statements of Operations for the fiscal years ended April 24, 2004, April 26, 2003 and April 27, 2002

Consolidated Statements of Shareholders' Equity for the fiscal years ended April 24, 2004, April 26, 2003 and April 27, 2002

Consolidated Statements of Cash Flows for the fiscal years ended April 24, 2004, April 26, 2003 and April 27, 2002

Notes to Consolidated Financial Statements

(a)(2) Financial Statement Schedule (See Exhibit 99.1).

Schedule for the fiscal years ended April 24, 2004, April 26, 2003 and April 27, 2002: Schedule II – Valuation and Qualifying Accounts.

(a)(3) Exhibits.

See (c) below.

(b) Reports on Form 8-K.

The Company furnished one report on Form 8-K during the fourth quarter of fiscal 2004 as follows:

(1) Form 8-K dated February 10, 2004, furnished on February 10, 2004, under Items 7 and 12. The Company issued a press release announcing its fiscal 2004 third quarter financial results.

(c) Exhibits.

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

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

Not applicable.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has caused this report to be signed on its behalf by the undersigned, thereunto duly authorized, on July 8, 2004.

SCHOOL SPECIALTY, INC.

By: /s/ David J. Vander Zanden

David J. Vander Zanden
President and Chief Executive Officer
(Principal Executive Officer)

By: /s/ Mary M. Kabacinski

Mary M. Kabacinski
Executive Vice President and Chief Financial Officer
(Principal Financial and Accounting Officer)

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

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

Name	Title	Date
/s/ David J. Vander Zanden David J. Vander Zanden	President, Chief Executive Officer and Director (Principal Executive Officer)	July 8, 2004
/s/ Mary M. Kabacinski Mary M. Kabacinski	Executive Vice President and Chief Financial Officer (Principal Financial and Accounting Officer)	July 8, 2004
/s/ Leo C. McKenna Leo C. McKenna	Chairman of the Board	July 8, 2004
/s/ Jonathan J. Ledecky Jonathan J. Ledecky	Director	July 8, 2004
/s/ Rochelle Lamm Rochelle Lamm	Director	July 8, 2004
/s/ Jerome M. Pool Jerome M. Pool	Director	July 8, 2004
/s/ Terry L. Lay Terry L. Lay	Director	July 8, 2004

INDEX TO EXHIBITS

Exhibit Number	Document Description
3.1	Articles of Incorporation of School Specialty, Inc., incorporated herein by reference to Appendix B of the School Specialty, Inc. definitive Proxy Statement dated July 24, 2000.
3.2	Bylaws of School Specialty, Inc., incorporated herein by reference to Exhibit 3.2 of School Specialty, Inc.'s Annual Report on Form 10-K for the period ended April 26, 2003.
4.1	Pledge Agreement dated as of April 11, 2003 given by School Specialty, Inc. and the other pledgors named therein to Bank of America, N.A. as Administrative Agent, incorporated herein by reference to Exhibit 4.1 of School Specialty, Inc.'s Annual Report on Form 10-K for the period ended April 26, 2003.
4.2	Amended and Restated Security Agreement dated as of April 11, 2003 given by School Specialty, Inc. and the other grantors named therein to Bank of America, N.A. as Administrative Agent, incorporated herein by reference to Exhibit 4.2 of School Specialty, Inc.'s Annual Report on Form 10-K for the period ended April 26, 2003.
4.3	Indenture dated as of July 30, 2001 between the Company and BNY Midwest Trust Company as Trustee, incorporated herein by reference to Exhibit 4.3 of School Specialty, Inc.'s Report on Form 10-Q for the period ended July 28, 2001.
4.4	Registration Agreement dated as of July 30, 2001 between the Company and Salomon Smith Barney, incorporated herein by reference to Exhibit 4.4 of School Specialty, Inc.'s Report on Form 10-Q for the period ended July 28, 2001.
4.5	Amended and Restated Credit Agreement dated as of April 11, 2003 among School Specialty, Inc., certain subsidiaries and affiliates of School Specialty, Inc. and the lenders named therein, incorporated herein by reference to Exhibit 4.1 of School Specialty, Inc.'s current report Form 8-K dated May 2, 2003.
4.6	Amendment No. 1 to Amended and Restated Credit Agreement dated as of July 11, 2003, incorporated herein by reference to Exhibit 4.1 of School Specialty, Inc.'s Quarterly Report on Form 10-Q for the period ended July 26, 2003.
4.7	Amendment No. 2 to Amended and Restated Credit Agreement dated as of May 27, 2004.
4.8	Registration Rights Agreement dated as of July 18, 2003 between the Company and Citigroup Global Markets Inc., incorporated herein by reference to Exhibit 4.2 of School Specialty, Inc.'s Quarterly Report on Form 10-Q for the period ended July 26, 2003.
4.9	Indenture dated as of July 18, 2003 between the Company and BNY Midwest Trust Company as Trustee, incorporated herein by reference to Exhibit 4.3 of School Specialty, Inc.'s Quarterly Report on Form 10-Q for the period ended July 26, 2003.
4.10	Certain other long-term debt as described in the Notes to Consolidated Financial Statements. School Specialty, Inc. agrees to furnish the Commission, upon request, copies of any instruments defining the rights of holders of any such long-term debt described in the Notes to Consolidated Financial Statements and not filed herewith.

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INDEX TO EXHIBITS

Exhibit Number	Document Description
10.1*	Employment Agreement dated September 3, 1999 between Mary M. Kabacinski and School Specialty, Inc., incorporated herein by reference to Exhibit 10.2 of School Specialty, Inc.'s Quarterly Report on Form 10-Q for the period ended October 23, 1999.
10.2*	Employment Agreement dated March 26, 2001 between A. Brent Pulsipher and School Specialty, Inc., incorporated herein by reference to Exhibit 10.8 of School Specialty, Inc.'s Annual Report on Form 10-K for the period ended April 28, 2001.
10.3*	Employment Agreement dated November 5, 2002, effective September 1, 2002, between David J. Vander Zanden and School Specialty, Inc., incorporated herein by reference to Exhibit 10.1 of School Specialty, Inc.'s Quarterly Report on Form 10-Q for the period ended October 26, 2002.
10.4*	Employment Agreement dated November 5, 2002 between Stephen R. Christiansen and School Specialty, Inc., incorporated herein by reference to Exhibit 10.2 of School Specialty, Inc.'s Quarterly Report on Form 10-Q for the period ended October 26, 2002.
10.5*	Employment Agreement Amendment dated September 11, 2002, effective June 1, 2002, between A. Brent Pulsipher and School Specialty, Inc., incorporated herein by reference to Exhibit 10.3 of School Specialty, Inc.'s Quarterly Report on Form 10-Q for the period ended October 26, 2002.
10.6*	Executive Term Life Insurance Plan for David J. Vander Zanden, incorporated herein by reference to Exhibit 10.1 of School Specialty, Inc.'s Quarterly Report on Form 10-Q for the period ended January 25, 2003.
10.7*	Employment Agreement Amendment dated June 3, 2004, between A. Brent Pulsipher and School Specialty, Inc.
10.8*	Amended and Restated 1998 Stock Incentive Plan, amended as of December 18, 2002, incorporated herein by reference to Exhibit 4.1 of School Specialty, Inc.'s Form S-8 filed on December 20, 2002.
10.9*	2002 Stock Incentive Plan, incorporated herein by reference to Exhibit 4.1 of School Specialty, Inc.'s Form S-8 filed on December 20, 2002.
10.10*	School Specialty, Inc. Incentive Bonus Plan, incorporated herein by reference to Exhibit 10.7 of School Specialty, Inc.'s Annual Report on Form 10-K for the period ended April 27, 2002.
10.11	Receivables Purchase Agreement dated November 22, 2000, incorporated herein by reference to Exhibit 10.1(a) of School Specialty, Inc.'s Quarterly Report on Form 10-Q for the period ended January 27, 2001.
10.12	Amendment No. 1 to the Receivables Purchase Agreement dated as of January 1, 2001, incorporated herein by reference to Exhibit No. 10.2 of School Specialty, Inc.'s Quarterly Report on Form 10-Q for the period ended July 28, 2001.
10.13	Amendment No. 2 to the Receivables Purchase Agreement dated as of July 13, 2001, incorporated herein by reference to Exhibit No. 10.3 of School Specialty, Inc.'s Quarterly Report on Form 10-Q for the period ended July 28, 2001.

INDEX TO EXHIBITS

Exhibit Number	Document Description
10.14	Amendment No. 3 to the Receivables Purchase Agreement dated as of November 20, 2001, incorporated herein by reference to Exhibit No. 10.1 of School Specialty, Inc.'s Quarterly Report on Form 10-Q for the period ended October 27, 2001.
10.15	Amendment No. 4 to the Receivables Purchase Agreement dated as of May 2, 2002, incorporated herein by reference to Exhibit 10.12 of School Specialty, Inc.'s Annual Report on Form 10-K for the period ended April 27, 2002.
10.16	Receivables Sale Agreement dated November 22, 2000, incorporated herein by reference to Exhibit 10.1(b) of School Specialty, Inc.'s Quarterly Report on Form 10-Q for the period ended January 27, 2001.
10.17	Amendment No. 1 to the Receivables Sale Agreement dated as of July 13, 2001 and incorporated herein by reference to Exhibit No. 10.1 of School Specialty, Inc.'s Quarterly Report on Form 10-Q for the period ended July 28, 2001.
10.18	Amendment No. 5 to the Receivables Purchase Agreement dated November 19, 2002, incorporated herein by reference to Exhibit 10.4 of School Specialty, Inc.'s Quarterly Report on Form 10-Q for the period ended October 26, 2002.
10.19	Amendment No. 6 to the Receivables Purchase Agreement dated April 11, 2003, incorporated herein by reference to Exhibit 10.2 of School Specialty, Inc.'s current report Form 8-K dated May 2, 2003.
10.20	Amendment No. 2 to the Receivables Sale Agreement dated April 11, 2003, incorporated herein by reference to Exhibit 10.1 of School Specialty, Inc.'s current report Form 8-K dated May 2, 2003.
10.21	Amendment No. 7 to the Receivables Purchase Agreement dated November 17, 2003, incorporated herein by reference to Exhibit 10.1 of School Specialty, Inc.'s Quarterly Report on Form 10-Q for the period ended October 25, 2003.
10.22	Amendment No. 8 to the Receivables Purchase Agreement dated March 31, 2004.
12.1	Statement Regarding Computation of Ratio of Earnings to Fixed Charges.
14.1	School Specialty, Inc. Code of Business Conduct/Ethics dated February 17, 2004.
16.1	Letter from Arthur Andersen LLP dated June 11, 2002 to the SEC incorporated herein by reference to Exhibit 16.1 of School Specialty, Inc.'s current report on Form 8-K dated June 11, 2002.
21.1	Subsidiaries of School Specialty, Inc.
23.1	Consent of Deloitte & Touche LLP.
31.1	Certification pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934, as amended, by Chief Executive Officer.
31.2	Certification pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934, as amended, by Chief Financial Officer.

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INDEX TO EXHIBITS

Exhibit Number	Document Description
32.1	Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, by Chief Executive Officer.
32.2	Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, by Chief Financial Officer.
99.1	Schedule II - Valuation and Qualifying Accounts.
99.2	Forward-Looking Statements

* Management contract or compensatory plan or arrangement.

EXHIBIT 4.7

SECOND AMENDMENT

THIS SECOND AMENDMENT (this "Amendment") dated as of May 27, 2004, to the Credit Agreement referenced below, is by and among SCHOOL SPECIALTY, INC., a Wisconsin corporation (the "Borrower"), the Subsidiaries of the Borrower identified as "Guarantors" on the signature pages hereto, the Lenders identified herein, and BANK OF AMERICA, N.A., as Administrative Agent, Swing Line Lender and L/C Issuer. Capitalized terms used herein but not otherwise defined herein shall have the meanings assigned to such terms in the Credit Agreement.

W I T N E S S E T H

WHEREAS, a $250 million credit facility has been extended to the Borrower pursuant to the terms of that Amended and Restated Credit Agreement (as amended, modified, supplemented and extended, the "Credit Agreement") dated as of April 11, 2003 by and among the Borrower, the Guarantors identified therein, the Lenders identified therein and Bank of America, N.A., as Administrative Agent, Swing Line Lender and L/C Issuer;

WHEREAS, the Borrower has requested certain modifications to the Credit Agreement; and

WHEREAS, the Required Lenders have consented to the requested modifications on the terms and conditions set forth herein.

NOW, THEREFORE, IN CONSIDERATION of the premises and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto agree as follows:

1. Amendments. The Credit Agreement is amended in the following respects, in each case effective as of April 25, 2004:

(a) In Section 7.02(c) of the Credit Agreement, the phrase "prior to the end of each fiscal year" is amended to read "within three (3) Business Days after the first quarterly board of directors meeting of each fiscal year (but in any event by no later than June 30 of each year)".

(b) In Section 7.02(d) of the Credit Agreement, the phrase "within 30 days after the end of each fiscal year" is amended to read "within three (3) Business Days after the first quarterly board of directors meeting of each fiscal year (but in any event by no later than June 30 of each year)".

2. Conditions Precedent. This Amendment shall be effective as of the date set forth above upon execution of this Amendment by the Loan Parties and the Required Lenders.

3. No Other Changes. Except as expressly modified hereby, all of the terms and provisions of the Loan Documents shall remain in full force and effect.

4. Reaffirmation of Liens. Each Loan Party (i) affirms that each of the Liens granted in or pursuant to the Loan Documents are valid and subsisting and (ii) agrees that this Amendment shall in no manner impair or otherwise adversely effect any of the Liens granted in or pursuant to the Loan Documents.

5. Reaffirmation of Guaranty. Each of the Guarantors (i) acknowledges and consents to all of the terms and conditions of this Amendment, (ii) affirms all of its obligations under the Loan Documents and

(iii) agrees that this Amendment and all documents executed in connection herewith do not operate to reduce or discharge such Guarantor's obligations under the Credit Agreement or the other Loan Documents.

6. Counterparts. This Amendment may be executed in any number of counterparts, each of which when so executed and delivered shall be deemed an original and it shall not be necessary in making proof of this Amendment to produce or account for more than one such counterpart.

7. Governing Law. This Amendment shall be deemed to be a contract made under, and for all purposes shall be construed in accordance with the laws of the State of New York.

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IN WITNESS WHEREOF, each of the parties hereto has caused a counterpart of this Amendment to be duly executed and delivered as of the date first above written.

BORROWER:

SCHOOL SPECIALTY, INC.
a Wisconsin corporation

By: /s/ Mary M. Kabacinski

Name: Mary M. Kabacinski
Title: Chief Financial Officer

GUARANTORS:

CHILDCRAFT EDUCATION CORP.,
a New York corporation
CLASSROOMDIRECT.COM, LLC,
a Delaware limited liability company
BIRD-IN-HAND WOODWORKS, INC.,
a New Jersey corporation
SPORTIME, LLC,
a Delaware limited liability company
GLOBAL VIDEO, LLC,
a Wisconsin limited liability company
PREMIER AGENDAS, INC.,
a Washington corporation
FREY SCIENTIFIC, INC.,
a Delaware corporation
AMALGAMATED WIDGETS, INC.,
a Wisconsin corporation
SAX ARTS & CRAFTS, INC.,
a Delaware corporation
CALIFONE INTERNATIONAL, INC.,
a Delaware corporation

By: /s/ Mary M. Kabacinski

Name: Mary M. Kabacinski
Title: Treasurer

[Signature Pages Continue]

ADMINISTRATIVE AGENT:

BANK OF AMERICA, N.A.,
as Administrative Agent

By: /s/ Casey Cosgrove

Name: Casey Cosgrove
Title: Vice President

LENDER:

BANK OF AMERICA, N.A.,
as a Lender, L/C Issuer and Swing Line Lender

By: /s/ Casey Cosgrove

Name: Casey Cosgrove
Title: Vice President

U.S. BANK NATIONAL ASSOCIATION

By: /s/ Karen Weathers

Name: Karen Weathers
Title: Vice President

LASALLE BANK, NATIONAL ASSOCIATION

By: /s/ Jon R. Huitink

Name: Jon R. Huitink
Title: Assistant Vice President

M&I MARSHALL & ILSLEY BANK

By: /s/ Leo D. Freeman

Name: Leo D. Freeman
Title: Vice President

BANK ONE, NA

By: /s/ Anthony F. Maggiore

Name: Anthony F. Maggiore
Title: Managing Director, Capital Markets

HARRIS TRUST & SAVINGS BANK

By: /s/ Ronald V. Webb

Name: Ronald V. Webb
Title: Vice President

NATIONAL CITY BANK OF MICHIGAN/ILLINOIS

By: /s/ Tiffany Cozzolino

Name: Tiffany Cozzolino
Title: Vice President

[Signature Pages Continue]

ASSOCIATED BANK, N.A.

By: /s/ Stephen E. Pasowicz

Name: Stephen E. Pasowicz
Title: Vice President, Corporate Banking

THE BANK OF NEW YORK

By: /s/ Mark Wrigley

Name: Mark Wrigley
Title: Vice President

UNION BANK OF CALIFORNIA, N.A.

By: /s/ Christine Davis

Name: Christine Davis
Title: Vice President

ST. FRANCIS BANK

By: /s/ Paul W. Jelacil

Name: Paul W. Jelacil
Title: Vice President

BANK OF SCOTLAND

By: /s/ Amena Nabi

Name: Amena Nabi
Title: Assistant Vice President

EXHIBIT 10.7

W6316 Design Drive 920-882-5622
Greenville, WI 54942 920-882-5814 Fax

June 3, 2004

Employment Agreement
Amendment II
Effective April 25, 2004

Both School Specialty, Inc., a Wisconsin corporation (the "Company") and A. Brett Pulsipher ("Employee") agree, by the below duly executed document, to the below Amendment to section I- Employment and Duties.

Amendment

Section I amended and rewritten to reflect new title and to redefine reporting relationship and in no way alters and or changes any previous amendments or sections of the agreement.

New Section Language

Employment and Duties The Company hereby agrees to employ the Employee and the Employee hereby accepts employment as Executive Vice President, of Corporate Technology for the Company and agrees to devote his full business time and efforts to the diligent and faithful performance of his duties hereunder the direction of the Chief Executive Officer of the Company. Such duties shall be performed in the State of Wisconsin.

In witness whereof, the parties hereto have amended this agreement as of the late reflective date listed above.

Company: School Specialty, Inc.

June 3, 2004
Date

/s/ David Vander Zanden

David Vander Zanden, CEO

Employee:

June 3, 2004
Date

/s/ A. Brent Pulsipher

A. Brent Pulsipher, Individual

EXHIBIT 10.22

AMENDMENT NO. 8
to
RECEIVABLES PURCHASE AGREEMENT

THIS AMENDMENT NO. 8 ("Amendment") is entered into as of March 31, 2004 by and among New School, Inc., as Seller ("Seller"), School Specialty, Inc., as Servicer ("SSI"), Falcon Asset Securitization Corporation ("Falcon"), the Financial Institutions party hereto, and Bank One, NA (Main Office Chicago), as agent (the "Agent").

PRELIMINARY STATEMENT

A. Seller, SSI, Falcon, the Financial Institutions and the Agent are parties to that certain Receivables Purchase Agreement dated as of November 22, 2000 (as amended, restated, supplemented or otherwise modified from time to time, the "Purchase Agreement"). Capitalized terms used herein and not otherwise defined shall have the meanings ascribed to them in the Purchase Agreement.

B. Seller, SSI, Falcon, the Financial Institutions and the Agent have agreed to amend the Purchase Agreement, subject to the terms and conditions hereinafter set forth.

NOW, THEREFORE, in consideration of the premises set forth above, and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto hereby agree as follows:

SECTION 1. Amendment. Effective as of the date hereof, subject to the satisfaction of the condition precedent set forth in Section 2 below, the Purchase Agreement is hereby amended as follows:

1.1 Clause (xvii) of the definition of "Eligible Receivable" appearing in Exhibit I is hereby deleted in its entirety and replaced with the following therefor:

(xvii) which, if an Unbilled Receivable, (A) the invoice relating thereto shall be required to be rendered no later than thirty-one (31) days from the date the transaction giving rise to such Receivable was completed, and (B) the Outstanding Balance of such Unbilled Receivable, when added to the Outstanding Balance of all Unbilled Receivables shall not exceed 10.0% of the Outstanding Balance of all Receivables at such time.

SECTION 2. Condition Precedent. This Amendment shall become effective and be deemed effective, as of the date first above written, upon receipt by the Agent of one copy of this Amendment duly executed by each of the parties hereto.

SECTION 3. Covenants, Representations and Warranties of the Seller and the Servicer.

3.1 Upon the effectiveness of this Amendment, each of Seller and SSI hereby reaffirms all covenants, representations and warranties made by it, to the extent the same are not amended hereby, in the Purchase Agreement and agrees that all such covenants, representations and warranties shall be deemed to have been re-made as of the effective date of this Amendment.

3.2 Each of Seller and SSI hereby represents and warrants as to itself (i) that this Amendment constitutes the legal, valid and binding obligation of such party enforceable against such party in accordance with its terms, except as enforceability may be limited by bankruptcy, insolvency, reorganization, moratorium or similar laws affecting the enforcement of creditors' rights generally and general principles of equity which may limit the availability of equitable remedies and (ii) upon the effectiveness of this Amendment, no event shall have occurred and be continuing which constitutes an Amortization Event or a Potential Amortization Event.

SECTION 4. Reference to and Effect on the Investor Agreement.

4.1 Upon the effectiveness of this Amendment, each reference in the Purchase Agreement to "this Agreement," "hereunder," "hereof," "herein," "hereby" or words of like import shall mean and be a reference to the Purchase Agreement as amended hereby, and each reference to the Purchase Agreement in any other document, instrument or agreement executed and/or delivered in connection with the Purchase Agreement shall mean and be a reference to the Purchase Agreement as amended hereby.

4.2 Except as specifically amended hereby, the Purchase Agreement and other documents, instruments and agreements executed and/or delivered in connection therewith shall remain in full force and effect and are hereby ratified and confirmed.

4.3 The execution, delivery and effectiveness of this Amendment shall not operate as a waiver of any right, power or remedy of Falcon, the Financial Institutions or the Agent under the Purchase Agreement or any of the other Transaction Documents, nor constitute a waiver of any provision contained therein, except as specifically set forth herein.

SECTION 5. GOVERNING LAW. THIS AMENDMENT SHALL BE CONSTRUED IN ACCORDANCE WITH THE LAWS OF THE STATE OF NEW YORK AND THE OBLIGATIONS, RIGHTS, AND REMEDIES OF THE PARTIES UNDER THIS AGREEMENT SHALL BE DETERMINED IN ACCORDANCE WITH SUCH LAWS.

SECTION 6. Execution in Counterparts. This Amendment may be executed in any number of counterparts and by different parties hereto in separate counterparts, each of which when so executed and delivered shall be deemed to be an original and all of which taken together shall constitute but one and the same instrument.

SECTION 7. Headings. Section headings in this Amendment are included herein for convenience of reference only and shall not constitute a part of this Amendment for any other purpose.

* * * * *

IN WITNESS WHEREOF, the parties hereto have caused this Amendment to be executed on the date first set forth above by their respective officers thereto duly authorized, to be effective as hereinabove provided.

NEW SCHOOL, INC., as Seller

By: /s/ Mary M. Kabacinski

Name: Mary M. Kabacinski
Title: Treasurer

SCHOOL SPECIALTY, INC., as Servicer

By: /s/ Mary M. Kabacinski

Name: Mary M. Kabacinski
Title: EVP / CFO

FALCON ASSET SECURITIZATION CORPORATION

By: /s/ George S. Wilkins

Name: George S. Wilkins
Title: Authorized Signatory

BANK ONE, NA (MAIN OFFICE CHICAGO), as a Financial Institution and as Agent

By: /s/ George S. Wilkins

Name: George S. Wilkins
Title: Authorized Signatory

EXHIBIT 12.1

SCHOOL SPECIALTY, INC.
RATIO OF EARNINGS TO FIXED CHARGES
(DOLLARS IN THOUSANDS)

	Fiscal Year (1)				
	2004	**2003**	**2002**	**2001**	**2000**
Earnings					
Income before income taxes	$66,712	$66,037	$36,300	$21,006	$33,635
Plus:					
Fixed charges	21,100	20,840	20,052	18,941	15,003
Amortization of capitalized interest	48	48	28	—	—
Less interest capitalized during period	—	—	240	—	—
	$87,860	$86,925	$56,140	$39,947	$48,638
Fixed Charges					
Interest (expensed or capitalized)	$16,564	$16,042	$15,964	$16,393	$12,767
Portion of rent expense representative of interest	2,797	2,675	2,519	1,958	1,661
Amortization of deferred financing fees	1,739	2,123	1,569	590	575
	$21,100	$20,840	$20,052	$18,941	$15,003
Ratio of earnings to fixed charges	4.2	4.2	2.8	2.1	3.2

(1) All fiscal years presented were 52 weeks, except for fiscal 2000, which had 53 weeks.

School Specialty, Inc.
Code of Business Conduct / Ethics

Effective as of February 17, 2004

Table of Contents

Message from the Chairman and CEO

- Highlights of the Code
- Your Responsibilities
- Conflicts of Interest
- Financial Records
- Use of Company Assets
- Working with Customers and Suppliers
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- Administration of the Code
  - Appendix A – Acknowledgement of Receipt
  - Appendix B – Annual Certification of Compliance

From The Chairman And CEO

At School Specialty, we have always regarded our integrity as one of our most important assets. Our reputation for consistent ethical and honest behavior has been an important contributor to the success we have enjoyed so far – and maintaining that reputation will be critical to the accomplishment of our future goals, particularly given the nature of our business – we help children learn.

This Code of Business Conduct / Ethics applies to all directors, officers and employees of School Specialty, Inc. and its subsidiaries and is intended to inform them of their ethical obligations to our company. As you read this document, you will see that we have set a very high standard of conduct. Adherence to the standards contained in this Code of Business Conduct / Ethics is critical to our future success.

We are all expected to comply with this Code of Business Conduct / Ethics at all times. A lone violation of this Code of Business Conduct / Ethics by a single individual could have devastating consequences for our customers, our shareholders, our company and on the livelihoods of all of us. We cannot afford even the appearance of improper behavior.

We ask you to read the entire Code of Business Conduct / Ethics and sign the acknowledgement form confirming that you have read and understood the Code of Business Conduct / Ethics. We will regularly ask you to re-read the Code.

Thank you for your role in maintaining our position as a leader in the marketplace and in making us a leader in ethical business practices.

Sincerely,

Leo C. McKenna
Chairman of the Board
School Specialty, Inc.

David J. Vander Zanden
President and CEO
School Specialty, Inc.

HIGHLIGHTS OF THE CODE

- Employees must follow the law wherever they are. The activities of the Company, and hence your activities, must always be in full compliance with all laws, rules and regulations of the jurisdictions in which the Company conducts its business. The Company expects everyone to follow the spirit as well as the letter of the law.
- Employees must avoid conflicts of interest. Be aware of how others may perceive your actions.
- Financial records—both for internal activities and external transactions—must be timely and accurate.
- Company assets—including computers, materials and work time—must not be used for personal benefit.
- Customers and suppliers must be dealt with fairly and at arm's length.
- Employees must safeguard the company's nonpublic information.
- Violations of the Code include asking other employees to violate the Code, not reporting a clear Code violation or failing to cooperate in a Code investigation.
- Violating the Code will result in discipline. Discipline will vary depending on the circumstances and may include, alone or in combination, a letter of reprimand, demotion, loss of compensation, suspension or even termination.
- Under the Code, certain actions require written approval by your Principal Manager. The Principal Manager is your Division President or Corporate function head who is at a vice president level or above. The Principal Manager is responsible to report these actions to the Chief Financial Officer of the Corporation in Greenville, WI ("CFO") or to the Corporate Vice President of Human Resources in Greenville, WI.
- For those who are themselves Principal Managers, written approvals must come from the CFO. Written approvals for executive officers (defined as Section 16 officers) and directors must come from the Audit Committee of the Board of Directors. Any waiver (exception) to the Code for an executive officer or director, including the reason for the waiver, must be disclosed via a Form 8K filing with the SEC within 5 business days and can only be made by the Board of Directors.
- **If you have questions about any situation, ask. Always ask.**

This Code should help guide your conduct. But the Code cannot address every circumstance and is not meant to; this is not a catalog of workplace rules. You should be aware that the company also has other policies. Employees should consult the policies of School Specialty in specific areas as they apply.

YOUR RESPONSIBILITIES

- It is your responsibility to read and understand the Code of Business Conduct / Ethics. You must comply with the Code in both letter and spirit. Ignorance of the Code will not excuse you from its requirements.
- Follow the law wherever you are and in all circumstances.
- Never engage in behavior that harms the reputation of the company.
- Some situations may seem ambiguous. If you find yourself questioning whether an action violates the Code, think through the situation and seek guidance. Don't ignore your instincts. Ultimately, you are responsible for your actions.
- You have several options for seeking guidance. You may discuss concerns with your manager, responsible employees in the finance or human resources department, or officers of the company.
- Employees are obliged to promptly report clear violations, and suspected violations, of the Code. This includes situations where a manager or colleague asks you to violate the Code. In all cases, unless you are engaged in the violation/wrong-doing, there will be no reprisals for making any reports, and every effort will be made to maintain confidentiality.
- You can report violations of the Code to the CFO or to the Corporate Vice President of Human Resources (or you may report the violation to your Principal Manager, who in turn must promptly report the violation to the CFO or Vice President of Human Resources). You may also report violations using the confidential employee hotline at 1-800-863-3449 (which allows you to remain anonymous).
- Employees are obliged to cooperate with investigations into Code violations and must always be truthful and forthcoming in the course of these investigations.
- Managers have important responsibilities under the Code. Managers must understand the Code, seek guidance when necessary and report suspected Code violations.
- **The most important message is this: When you are uncertain about any situation, ask for guidance.**

Conflicts of Interest

OVERVIEW

Your personal activities and relationships must not conflict, or appear to conflict, with the interests of the company. Keep in mind, the Code cannot specifically address every potential conflict, so use your conscience and common sense. When questions arise, seek guidance.

GENERAL PRINCIPLES

- Avoid situations where your personal interests conflict, or appear to conflict, with those of the company.
- You may own up to 1% of the stock in a competitor, customer or supplier without seeking prior approval from your Principal Manager so long as the stock is in a public company and you do not have discretionary authority in dealing with that company. If you want to purchase more than 1% of the stock in a customer, competitor or supplier, or the company is nonpublic or you have discretionary authority in dealing with the company, then the stock may be purchased ***only*** with prior approval of your Principal Manager.
- If you have a financial interest in a transaction (meaning that somehow you or a family member would personally benefit from a transaction) between the company and a third party—even an indirect interest through, for example, a family member—that interest must be approved by your Principal Manager prior to the transaction. However, if you have a financial interest in a supplier or customer only because someone in your family works there, then you do not need to seek prior approval unless you deal with the supplier or customer or your family member deals with the company.
- If you'd like to serve as an officer or director or consultant to an outside business on your own time, (and if the business has any dealings with School Specialty, Inc. or if it is likely that your affiliation with the outside business may impact your ability to perform your job to the fullest at the company) you must receive prior approval in writing from your Principal Manager. If your Principal Manager changes, or the circumstances of the outside business change substantially, you must seek re-approval. (Employees are permitted, however, to serve on charity boards or in family businesses that have no relationship to the company.) This rule does not apply to non-employee directors of the company.
- Any potential conflict of interest that involves an officer of the company, of a division or of a subsidiary must be approved in advance by the CFO. Any potential conflict of interest that involves a director or executive officer (defined as Section 16 officers and directors by the Securities and Exchange Commission) of the company must be approved by the Board of Directors or its designated committee. For purposes of the Code, the Board of Directors has assigned the Audit Committee as the designated committee.
- Loans from the company to directors or executive officers are prohibited. Loans from the company to other officers and employees must be approved in advance by the CFO. Travel advances are expected to be repaid with expense report documentation within 30 days of travel and are not considered loans for this purpose.

EXAMPLE

The action: A merchandiser considered buying stock in a regional furniture supplier, which was one of his vendors. He asked his manager whether it was a violation of the Code.

The decision: His manager investigated the matter and advised that it would be a violation of the Code to invest in the vendor's businesses because the merchandiser had discretionary authority in dealing with that vendor.

Financial Records

OVERVIEW

Every company financial record—including time sheets, sales records and expense reports—must be accurate, submitted timely and prepared in accordance with the law (an unintentional, immaterial inaccuracy is not a violation of the Code, but should be brought to your Principal Manager's attention as soon as the error is discovered). These records are the basis for managing the company's business and for fulfilling its obligations to share owners, employees, customers, suppliers and regulatory authorities.

GENERAL PRINCIPLES

- Always record and classify transactions in the proper accounting period and in the appropriate account and department. Delaying or prepaying invoices to meet budget goals is a violation of the Code.
- Never falsify any document or distort the true nature of any transaction.
- All transactions must be supported by accurate documentation.
- All reports made to regulatory authorities must be full, fair, accurate, timely and understandable.
- Employees must cooperate with investigations into the accuracy and timeliness of financial records.
- To the extent estimates and accruals are necessary in company reports and records, they must be supported by appropriate documentation and based on good faith judgment as exercised by the individual responsible for the respective estimate/accrual and the finance lead at the respective unit.
- Payments can only be made to the person or the firm that actually provided the goods or services.

EXAMPLES

The action: As the year was coming to a close, a division president realized that his operation already had exceeded the profit target in its annual business plan. The division president asked corporate accounting if he should hold any further income received that year off the books in order to get a head start on the next year.
The decision: "Don't even think about it!" he was told. All income and expenses must be recorded in the period they are actually realized.

The action: An employee submitted a time report for weekend overtime. Her supervisor was skeptical that she had worked the extra hours and checked weekend logs of entries into the building.
The decision: The employee was put on notice that there was no record of her being in the building, she confessed to falsifying her time report. She was fired, as she was stealing from the company.

The action: Two employees on a business trip ate dinner at a restaurant. One of them paid for the meal and was reimbursed by the company for the expense. The other employee took a duplicate receipt and submitted an expense report for money he didn't spend.
The decision: The second employee was fired. He didn't pay for the meal, and so was stealing from the company.

The action: A customer demanded that a salesperson alter an invoice. The customer wanted the invoice to show a higher price than he actually paid. The customer asserted that he would no longer buy from the company unless the salesperson agreed to falsify the invoice.
The decision: The salesperson knew that the demand was in violation of the Code and refused to play along with the customer. The salesperson then informed his supervisor of the circumstances. That was the right thing to do.

Use of Company Assets

OVERVIEW

Company assets are meant for company, not personal use. Company assets include your time at work and work product, as well as the company's equipment and vehicles, computers and software, company information, and trademarks and name.

Common sense should prevail, of course. The occasional personal phone call from your workplace, for example, is inevitable. Substantial personal phone calls, however, represent misuse. The point is to recognize that theft or deliberate misuse of company assets is a violation of the Code.

GENERAL PRINCIPALS

- You may not misuse company assets for your personal benefit or the benefit of anyone other than the company.
- You may not take for yourself any opportunity for financial gain that you find out about because of your position at the company or through the use of company property or information.
- Misuse of company assets may be considered theft and result in termination or criminal prosecution.
- Before accepting payment for speeches or presentations related to the company or your work at the company, always get your Principal Manager's approval.
- Company computer systems and equipment are meant for company use only. For example, they should never be used for outside businesses, illegal activities, gambling or pornography. Refer to the company's Computer and Internet Use policy.

EXAMPLES

The action: An employee used her computer excessively for personal use such as personal email, shopping or investments.

The decision: It may not sound like much, but the company's losses in work time and other costs total thousands of dollars. She was fired as she was stealing from the company.

Working with Customers & Suppliers

OVERVIEW

It often is customary to exchange gifts and entertainment with customers and suppliers. The key is to keep an arm's length relationship. Further, many of School Specialty's customers are government employees and subject to rules/restrictions on gifts they may accept. You should be aware of those restrictions and ensure that any gift or entertainment you provide, regardless of how small you deem it to be does not violate the policies of our customers. Also, avoid excessive or lavish gifts that may give the appearance of undue influence. Avoid personal financial transactions with customers and suppliers that may influence your ability to perform your job.

GENERAL PRINCIPLES

- The Code prohibits employees from accepting lavish gifts or entertainment. This is an area in which your judgment is critical. For instance, modest holiday gifts are usually fine, but a large gift of money (for example $100 or more) or a lavish, expensive weekend trip (valued at more than $100) probably would not be. If you are uncertain, seek prior written approval from your Principal Manager.
- Gifts and entertainment for customers, potential customers and suppliers must support the legitimate business interests of the company and should be reasonable and appropriate under the circumstances. Always be sensitive to our customers' and suppliers' own rules on receiving gifts and entertainment.
- Consistent with the obligation we all have to act with integrity and honesty at all times, you should deal fairly with the company's customers, suppliers, competitors and employees. No director, officer or employee should take unfair advantage of anyone through misrepresentation or any unfair business practice.
- Employees are prohibited from receiving payments, gifts or products ("spiffs") directly from vendors or customers. Vendor spiffs are acceptable only if under a pre-approved company / vendor program and the spiff is reported.

EXAMPLES

The action: A merchandiser / buyer received a diamond watch from a supplier who does a lot of business with the company. The merchandiser / buyer and the supplier are friends. The merchandiser / buyer graciously returned the watch, explaining that the company doesn't allow lavish gifts, and reported the incident to her supervisor.
The decision: The employee made the right call. She knew that the watch could influence her buying decision—or that it might appear that way to others.

The action: An account executive played in a business-related golf tournament. He won the tournament, and accepted the prize—a Caribbean cruise. He checked with his manager for approval.
The decision: Keeping the prize was fine. It was a legitimate test of skill or luck, and a large number of people participated in the tournament.

The action: A sales representative was offered a $5,000 cash bonus from a supplier if the sales representative increased the supplier product sales by 10 percent in one year. The sales representative accepted the payment.
The decision: The sales representative was fired, as the bonus was not a company / vendor spiff program and no pre-approval was sought.

Protecting Information

Overview

It is your obligation to safeguard the company's nonpublic information. You should not share this information with anyone outside the company unless it is necessary as part of your work responsibilities.

Nonpublic information is any information that has not been disclosed or made available to the general public. Trading in stocks or securities based on nonpublic information, or providing nonpublic information to others so that they may trade, is illegal and may result in prosecution.

Nonpublic information includes items such as financial or technical data, plans for acquisitions or divestitures, new products, inventions or marketing campaigns, personal information about employees, major contracts, expansion plans, financing transactions, major management changes and other corporate developments.

General Principles

- Do not disclose nonpublic information to anyone outside the company, except when disclosure is required for business purposes and appropriate steps have been taken to prevent misuse of the information.
- Employees may not buy or sell stocks or securities based on nonpublic information obtained from their work at the company. See also the company's Insider Trading Policy.
- Disclosing nonpublic information to others, including family and friends, is a violation of the Code and may violate the law.
- Just as the company values and protects its own nonpublic information, we respect the nonpublic information of other companies. If you have any questions about obtaining or using nonpublic information of other companies, contact the CFO for guidance.
- Records should be retained or discarded in accordance with the company's record retention policies.

Examples

The action: A marketing manager was preparing a presentation on a new company promotion. She was excited about the plan and wanted to discuss it with a friend outside the company. She wasn't sure if that would be a Code violation, so she checked with her manager.
The decision: It's a good thing she checked. Sharing nonpublic information is a Code violation, even if the recipient doesn't work for the competitor, customer or supplier.

The action: An administrative assistant heard an office rumor that the company was considering acquiring a small, publicly traded science company. She wondered if it was ok to acquire some of the stock of the science company. She asked her manager.
The decision: Her manager advised her not to buy the stock. It's a violation of the Code and a violation of the securities laws on insider trading. She didn't buy the stock—it wasn't worth going to jail or losing her job.

The action: A company executive was traveling with a colleague on a plane to work on an acquisition. They began to discuss the particulars of the acquisition when one of them noticed a man across the aisle listening intently and taking notes.
The decision: They quickly decided it was time to drop the subject. It's never a good idea to discuss company matters in public where others might hear and take advantage of the information.

Administration of the Code

DISTRIBUTION

All company directors, officers and employees are subject to this Code and will receive a copy of this Code at the time they join the company and will receive periodic updates.

APPROVALS

The appropriate Principal Managers must review and approve in writing any circumstance requiring special permission, as described in the Code. Copies of these approvals are to be submitted to the CFO and are maintained by the company.

Waivers of any provision of this Code for officers or directors must be approved by the Board of Directors and will be promptly disclosed to the extent required by law or regulation.

MONITORING COMPLIANCE

Employees should take all responsible steps to prevent a Code violation.

Employees must promptly report suspected Code violations to their Principal Manager, to the Vice President of Human Resources or to the CFO. Employees may also report violations on the confidential employee hotline at 1-800-863-3449.

INVESTIGATIONS

The responsibility for administering the Code, investigating violations of the Code and determining corrective and disciplinary action rests with the Audit Committee of the Board of Directors. The Audit Committee has delegated the CFO the responsibility for day-to-day operation of this Code and to direct investigations of suspected violations of the Code. The CFO has also been delegated responsibility for granting waivers to the Code for employees who are not officers or directors, but must report such waivers to the Audit Committee on a periodic basis.

The CFO will periodically report Code violations and the corrective actions taken to the Audit Committee of the Board of Directors.

DISCIPLINARY ACTIONS

The company strives to impose discipline for each Code violation that fits the nature and particular facts of the violation. The company uses a system of progressive discipline. Violations may result in warnings or letters of reprimand, suspension without pay, demotion, loss or reduction of compensation, or termination.

Violations of this Code are not the only basis for disciplinary action. The company has additional policies and procedures governing conduct.

SIGNATURE AND ACKNOWLEDGEMENT

All new employees must sign an acknowledgment form confirming that they have read the Code and understand its provisions. Failure to read the Code or to sign an acknowledgment form, however, does not excuse an employee from the terms of this Code. All employees who participate in the company's annual executive bonus plans and/or have stock options must sign an acknowledgment annually.

IT'S UP TO YOU

Administration of the Code is everyone's responsibility. There are colleagues to help you do the right thing. If you act with integrity and seek guidance when you are uncertain, you'll be doing the right thing.

This Code is not an express or implied contract of employment and does not create any contractual rights of any kind between School Specialty, Inc. and its employees. In addition, all employees should understand that this Code does not modify their employment relationship, whether at will or governed by contract.

School Specialty, Inc. reserves the right to amend, alter or terminate this Code at any time and for any reason.

Acknowledgement of Receipt of
the Code of Business Conduct / Ethics

I acknowledge that I have received, read and understand the Code of Business Conduct / Ethics dated ______, 2004, and represent:

1. In accordance with the Code of Business Conduct / Ethics, I will report all violations of the Code to the Company's CFO, the confidential employee hotline or to the Chairman of the Audit Committee of the Board of Directors.
2. I am currently in compliance with all aspects of the Code and do not currently know of any violations of the Code of Business Conduct / Ethics; except as follows:
3. I will comply with the Code of Business Conduct / Ethics in all other respects.

____
Signature

____
Print Name

____
Title

____
Date

Annual Certification of Compliance with
the Code of Business Conduct / Ethics

I certify that during the past year:

1. I have reported all violations of the Code of which I was aware.
2. I am currently in compliance with all aspects of the Code and have complied with the Code in all other respects, except as follows:
3. I have read and understand the Code, recognize that I am subject thereto, and agree that I will comply with the Code

____
Signature

____
Print Name

____
Title

____
Date

EXHIBIT 21.1

SUBSIDIARIES OF THE REGISTRANT

NAME		STATE OR OTHER JURISDICTION OF INCORPORATION OR ORGANIZATION
1.	ClassroomDirect.com, LLC	Delaware
2.	Childcraft Education Corp.	New York
3.	Bird-in-Hand Woodworks, Inc.	New Jersey
4.	Frey Scientific, Inc.	Delaware
5.	Sportime, LLC	Delaware
6.	Sax Arts & Crafts, Inc.	Delaware
7.	Global Video, LLC	Wisconsin
8.	New School, Inc.	Delaware
9.	Premier Agendas, Inc.	Washington
10.	Premier School Agendas, Ltd.	Canada
11.	Amalgamated Widgets, Inc.	Wisconsin
12.	Select Agendas, Corp.	Canada
13.	Califone International, Inc.	Delaware

EXHIBIT 23.1

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We consent to the incorporation by reference in Registration Statements Nos. 333-102089, 333-102091, 333-64193 and 333-90361 on Form S-8, Nos. 333-109116 and 333-68710 on Form S-3 and No. 333-90597 on Form S-4 of School Specialty, Inc. of our report dated June 29, 2004, appearing in this Annual Report on Form 10-K of School Specialty, Inc. for the year ended April 24, 2004.

/s/ DELOITTE & TOUCHE LLP

Milwaukee, Wisconsin
July 1, 2004

EXHIBIT 31.1

CERTIFICATIONS PURSUANT TO SECTION 302 OF THE SARBANES OXLEY ACT OF 2002
CERTIFICATION

I, David J. Vander Zanden, President and Chief Executive Officer of School Specialty, certify that:

1. I have reviewed this annual report on Form 10-K of School Specialty, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:
   a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
   b) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
   c) disclosed in this report any changes in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):
   a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
   b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: July 8, 2004

/s/ David J. Vander Zanden

David J. Vander Zanden
President and Chief Executive Officer

EXHIBIT 31.2

CERTIFICATIONS PURSUANT TO SECTION 302 OF THE SARBANES OXLEY ACT OF 2002
CERTIFICATION

I, Mary M. Kabacinski, Executive Vice President and Chief Financial Officer of School Specialty, certify that:

1. I have reviewed this annual report on Form 10-K of School Specialty, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:
   a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
   b) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
   c) disclosed in this report any changes in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):
   a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
   b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: July 8, 2004

/s/ Mary M. Kabacinski

Mary M. Kabacinski
Executive Vice President and Chief Financial Officer

EXHIBIT 32.1

CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350, AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

I, David J. Vander Zanden, President and Chief Executive Officer of School Specialty, Inc., certify, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to the knowledge of the undersigned:

1. The Annual Report on Form 10-K for the fiscal year ended April 24, 2004 (the "Report") which this statement accompanies fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 (15 U.S.C. 78m or 78o(d)) and

2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of School Specialty, Inc.

Date: July 8, 2004

/s/ David J. Vander Zanden

David J. Vander Zanden
President and Chief Executive Officer

This certification accompanies this Annual Report on Form 10-K pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 and shall not be deemed as filed by School Specialty, Inc. for purposes of Securities Exchange Act of 1934.

EXHIBIT 32.2

CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350, AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

I, Mary M. Kabacinski, Executive Vice President and Chief Financial Officer of School Specialty, Inc., certify, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to the knowledge of the undersigned:

1. The Annual Report on Form 10-K for the fiscal year ended April 24, 2004 (the "Report") which this statement accompanies fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 (15 U.S.C. 78m or 78o(d)) and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of School Specialty, Inc.

Date: July 8, 2004

/s/ Mary M. Kabacinski

Mary M. Kabacinski
Executive Vice President and Chief Financial Officer

This certification accompanies this Annual report on Form 10-K pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 and shall not be deemed as filed by School Specialty, Inc. for purposes of Securities Exchange Act of 1934.

EXHIBIT 99.1

School Specialty, Inc.
Schedule II - Valuation and Qualifying Accounts
Fiscal Years Ended April 27, 2002, April 26, 2003 and April 24, 2004

Description	Date	Balance at Beginning of Period	Charged to Costs and Expenses	Charged to Other Accounts	Deductions	Balance at End of Period	Date
Allowance for doubtful accounts	April 28, 2001	3,523,000	(663,000)	765,000 (a)	(906,000)(b)	2,719,000	April 27, 2002
	April 27, 2002	2,719,000	793,000	934,000 (a)	(650,000)(b)	3,796,000	April 26, 2003
	April 26, 2003	3,796,000	409,000	2,623,000 (a)	(201,000)(b)	6,627,000	April 24, 2004
Restructuring reserve	April 28, 2001	2,513,000	—	—	(1,650,000)	863,000	April 27, 2002
	April 27, 2002	863,000	—	—	(406,000)	457,000	April 26, 2003
	April 26, 2003	457,000	—	—	(216,000)	241,000	April 24, 2004

(a) Allowance for doubtful accounts acquired in purchase acquisitions.
(b) Represents write-offs of uncollectable accounts receivable offset by recoveries of previously written-off accounts receivable.

EXHIBIT 99.2

FORWARD-LOOKING STATEMENTS

You should consider the following factors in evaluating us and our business. If any of the following or other risks actually occurs, our business, financial condition and results of operations could be adversely affected. In such case, the trading price of our common stock could decline.

Dependence on Growth of Student Population and School Expenditures. Our growth strategy and profitability depend in part on growth in the student population and expenditures per student in preK-12 schools. The level of student enrollment is largely a function of demographics, while expenditures per student are also affected by government budgets and the prevailing political and social attitudes towards education. The industry has been recently affected by the generally weakened economic environment, which has placed pressure on some state and local budgets, the primary sources of school funding. Any significant and sustained decline in student enrollment and/or expenditures per student could have a material adverse effect on our business, financial condition, and results of operations.

Seasonality of Our Business. Our businesses are highly seasonal. Because most of our customers want their school supplies delivered before or shortly after the commencement of the school year, we record most of our revenues from June to October. As a result, we usually earn more than 100% of our annual net income in the first two quarters of our fiscal year and operate at a net loss in our third and fourth fiscal quarters. This seasonality causes our operating results to vary considerably from quarter to quarter.

Material Amount of Goodwill and Intangible Assets. Approximately $517.7 million, or 62%, of our total assets as of April 24, 2004 represented intangible assets, the significant majority of which is goodwill. Goodwill is the amount by which the costs of an acquisition exceeds the fair value of the net assets we acquire. We are required to record goodwill as an intangible asset on our balance sheet. In addition, we are required to evaluate whether our goodwill and other intangible assets have been impaired. Reductions in our net income caused by the write-down of goodwill or intangible assets could materially adversely affect our results of operations.

Ability to Identify and Integrate Acquisitions. Our business has grown significantly through acquisitions in recent years. Future growth in our revenues and earnings are enhanced by our ability to continue to acquire and successfully integrate and operate school supply companies. We cannot guarantee that we will be able to identify and acquire businesses on reasonable terms or at all. In addition, we cannot be sure that we will be able to operate the businesses that we acquire profitably or that our management and financial controls, personnel, computer systems and other corporate support systems will be adequate to manage the increased size and scope of our operations as a result of acquisitions. Managing and integrating acquired businesses may result in substantial costs, delays, or other operating or financial problems that could materially and adversely affect our financial condition and results of operations.

Dependence on Key Suppliers and Service Providers. We depend upon a limited number of suppliers for some of our products, especially furniture and proprietary products. We also depend upon a limited number of service providers for the delivery of our products. If these suppliers or service providers are unable to provide the products or services that we require or materially increase their costs (especially during our peak season of June through October), this could impair our ability to deliver our

products on a timely and profitable basis and could have a material adverse effect on our business, financial condition and results of operations. As we seek to reduce the number of our suppliers and to minimize duplicative lines as part of our business strategy, we are likely to increase our dependence on remaining suppliers.

Competitive Environment. The market for school supplies is highly competitive and fragmented. We estimate that over 3,400 companies market educational materials to schools with preK-12 as a primary focus of their business. We also face increasing competition from alternate channel marketers, including office supply superstores and office product contract stationers, that have not traditionally focused on marketing school supplies. These competitors are likely to continue to expand their product lines and interest in school supplies. Some of these competitors have greater financial resources and buying power than we do. We believe that the supplemental educational supply market will consolidate over the next several years, which is likely to increase competition in our markets and in our search for attractive acquisition candidates.

Reliance on Key Personnel. Our business depends to a large extent on the abilities and continued efforts of current executive officers and senior management. We are also likely to depend heavily on the executive officers and senior management of businesses that we acquire in the future. If any of these people become unable or unwilling to continue in his or her role, or if we are unable to attract and retain other qualified employees, our business could be adversely affected. Although we have employment contracts with our executive officers, we generally do not have employment agreements with other members of our management. Other than the life insurance we have in place for our President and Chief Executive Officer, we do not have and do not intend to obtain key man life insurance covering any of our executive officers or other members of our management.

Dependence on Our Information Systems. We have integrated the operations of most of our divisions and subsidiaries, which operate on a host system located at our Greenville, Wisconsin headquarters. In addition, there are five divisions running legacy systems hosted at their locations. All systems rely on continuous telecommunication connections to the main computers. If any of these connections becomes disrupted, or unavailable, for an extended period of time the disruption could materially and adversely affect our business, operations and financial performance. We also continue to introduce new information systems to achieve a common processing infrastructure for all of our businesses, which will displace existing legacy systems. As we implement the new systems to the businesses, there is the possibility that it can be disruptive should the new systems not perform as expected.

Even though we have taken precautions to protect ourselves from unexpected events that could interrupt new, existing and acquired business operations and systems, we cannot be sure that fire, flood or other natural disaster would not disable our systems and/or prevent them from communicating between business segments. The occurrence of any such event could have a material adverse affect on our business, results of operations and financial condition.

Leverage. As of April 24, 2004, we had $314.6 million of debt outstanding. Our leverage could increase over time. Our credit facility permits us to incur additional debt under certain circumstances, and we expect to borrow under our credit facility for general corporate purposes, including working capital, capital expenditures and for acquisitions. Our ability to meet our debt service obligations depends on our future performance. Our future performance is influenced by general economic conditions and by financial, business, and other factors affecting our operations, many of which are beyond our control. If we are unable to service our debt, we may have to delay our acquisition program, sell our equity securities, sell our assets, or restructure and refinance our debt, and our business may suffer as a result.

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