

# 2004 Annual Report



School  
Specialty®

*The power of teaching. The wonders of learning.™*

# to our shareholders



Fiscal 2004 was an important year for School Specialty. You may have noticed our new look on the cover. We are presenting a new image to you and to our customers, and we are delivering a new message. We have always been involved in education, but in our early days, we were only a distributor of educational products. Today, while we still acquire and distribute educational

products, we now develop our own products that account for more than 40 percent of our annual revenues. Our specialty companies design these proprietary products for specific age groups and curriculum areas. Most of our future growth will come from the specialty side of our business, which now accounts for more than 50 percent of our revenues and about 60 percent of our segment operating profit. Our image will change over the next few years from a place where educators can buy products for education, to a place where educators look for new ideas to enhance learning. Our image will change from a distribution company, to an education company. Our new look and logo reflect the celebration that occurs in education when a child is successful.

To support this new direction, we acquired several companies during the year that derive 100 percent of their revenues from proprietary products. Select Agendas, located in Montreal, Canada, develops student agendas and fits well with Premier Agendas, our industry-leading student agenda company. Califone, the industry leader in audio visual products, was acquired in January, and Children's Publishing, also acquired in January, places the company squarely in the supplemental publishing field, with some of the best product brands in the industry.

We achieved record revenues and earnings in fiscal 2004. Our revenues increased four percent to \$907.5 million and our net income grew three percent to \$40.8 million. In addition, our associates worked very hard last year to position the Company for future growth. We entered the Canadian marketplace, and are now one of the larger supplemental education companies in Canada. Our goal is to become the largest over the next few years. We also made a major investment in the pre-kindergarten space. Almost all of our specialty companies introduced new products and new catalogs to this market last year. Favorable state funding in subsequent years will make the early learning space an attractive place to be. Our key accounts group, which provides custom service to national early learning centers and charter schools as well as the largest K-12 districts in the country, completed its first full year of operation and

generated very nice top line growth. We are expanding this innovative concept next year to the two largest markets in the country, Texas and California.

We are gaining momentum on off-shore production of our products, which gives us lower costs and better operating margins. We will bring in over 600 containers this summer, and expect that we will be importing 25 percent of our consumable products in a couple years. Finally, we worked very hard to improve our supply chain efficiencies and service levels, and are well on our way to becoming the highest service provider in the industry, with the lowest cost structure.

We have adopted an environmental policy with respect to the source of raw materials used in producing our catalogs, shipping materials and products for our customers, as well as addressing the post-consumer recycled paper content used in these areas. This year our highest page count catalogs, Educator's Marketplace, Sax Arts & Crafts and Frey Scientific, contained 30 percent post-consumer content. This annual report is also produced with paper that contains post-consumer content. We believe it is a responsible position for the Company to take, and will be well accepted by our customers.

This past year the market conditions in our industry were impacted by state budget cuts in over half of the states in the country. Since states provide about 50 percent of school funds, the industry saw a significant reduction in spending. Some analysts described the funding environment as the worst since

World War II. The good news is that we believe we have seen the bottom of the cycle on funding, and with a growing economy, states will fare better in the next cycle beginning July 1, 2004. As a result, spending will improve in our coming season. However, we do not believe our customers will return to normal spending levels until our fiscal year 2006.

We will continue to work hard for you. On behalf of all our associates, thank you for investing in School Specialty.



Sincerely,

*David J. Vander Zanden*

**David J. Vander Zanden**  
President & CEO  
School Specialty, Inc.

# our family brands



Offering early childhood products including arts & crafts, literacy, manipulatives, playground sets and furniture that inspire early learning and development.



The industry's leading children's therapy and accessibility catalog including products for movement, positioning, sensory-motor, exercise aquatics and adapted play.



Helping educators create quality career and industrial education programs through products and curricular support for industrial arts, skilled trades and related technology.



Educator-inspired audio, multimedia and presentation products that enhance student listening, learning and achievement.



Helping early childhood educators create a joyful, focused learning environment that promotes learning and development through literacy, furniture, manipulatives, arts & crafts and dramatic play products.



Offering educators a quick, easy resource for finding the right products for the classroom at prices that make budgets go further.



Working with educators to develop creative solutions in science through products, curriculum guides and resources that support national science standards.



Helping educators maximize classroom effectiveness by providing tools for planning, communicating and recognizing student accomplishment.



Providing students with world-class time management systems that teach the vital life skills of personal and social effectiveness.



Providing a full range of the finest art materials & equipment to inspire imagination, self-expression and creativity and that enrich the art experience in elementary and secondary classrooms.



Family & Consumer Sciences

Providing resources for the development of independent living skills including consumer economics, character development, nutrition & food preparation, teen pregnancy prevention & parenting and related curriculums.



Offering high-quality educational supplements from the most respected names in the preK-8 classrooms, such as:



Providing educators with the most complete selection of products, services and resources including furniture, as well as building design, consultation services and technology products.



Leading the physical education industry in developing innovative products, equipment and services for students of all ages and abilities.



Inspiring learning through a variety of proprietary multimedia educational software, videos and printed supplements that enhance curriculum.



Offering the most complete selection of multimedia products including videos, DVDs and posters that help educators make learning engaging and memorable.



# School Specialty®

*The power of teaching. The wonders of learning.™*

School Specialty is an education company serving the preK–12 market with supplemental learning products, school furniture, children's publishing and specialized buying services.

Our family of brands designs, develops and markets services and ideas that help educators engage and inspire students of all ages and abilities.

Working in collaboration with educators, School Specialty reaches beyond the scope of textbooks to further enhance the sense of joy, accomplishment and endless possibilities in education.

Each day, School Specialty is committed to enhancing —  
The power of teaching. The wonders of learning.

W6316 Design Drive  
Greenville, WI 54942  
Phone: 920-734-5712  
Fax: 920-882-5863

[www.schoolspecialty.com](http://www.schoolspecialty.com)